# REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

# 2006

June

2007-04804/

## Office of the Auditor General

### Mission

To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance.

### Vision

Demonstrating and being recognized for independence, professional excellence, and credibility.

Making a significant contribution in support of an accountable and well-performing government.

1888 Brunswick Street
Suite 302
Halifax, NS B3J 3J8

Telephone: (902) 424-5907
Fax: (902) 424-4350

E-mail: oaginfo@gov.ns.ca
Website: http://www.gov.ns.ca/audg/

Honourable Cecil Clarke
Speaker
House of Assembly

Sir:

I have the honour to submit herewith an additional Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

JR Lapointe

**JACQUES R. LAPOINTE, BA, CA·CIA**
Auditor General

Halifax, Nova Scotia
June 16, 2006

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# Introduction

# MESSAGE FROM THE AUDITOR GENERAL

## INTRODUCTION

1.1 I am pleased to present my first Report to the House of Assembly on work completed by my Office in the first half of 2006.

1.2 This report is transitional, consisting of work begun prior to my appointment in March.

1.3 As the Province's Auditor General, my goal is to improve accountability and the operation of government; to help provide better government for the people of Nova Scotia. As an independent officer of the House, I provide to the House, and to the public, assurance as to the integrity of government's financial reporting and assessments of the use of public funds and of the operations and performance of the public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound practical recommendations to improve the management of the public sector.

1.4 This report reflects this service approach.

1.5 I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and courtesy we received from staff in departments, agencies, school boards and district health authorities during the course of our work.

## WHO WE ARE AND WHAT WE DO

1.6 The Auditor General is an officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House and to the people of Nova Scotia for providing independent and objective assessments of the operations of government, the use of public funds and the integrity of financial and performance reports.

1.7 The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. The Act stipulates that the Auditor General shall provide an annual report and opinion on the government's financial statements; provide an opinion on the revenue estimates in the government's annual budget address; and report to the House at least once, and up to three times annually, on the work of the Office.

1.8 The Office has a mandate under the Act to audit all parts of the Provincial public sector including government departments and all agencies, boards, commissions or other bodies responsible to the crown, including school boards and district health

authorities, as well as transfer payment recipients external to the Provincial public sector.

**1.9** In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by the Canadian Institute of Chartered Accountants, otherwise known as Generally Accepted Auditing Standards (GAAS). We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

**1.10** This report will be the first of two reports this year on the audit, review and other work of the Office. In addition, I provided an opinion on the 2006-07 revenue estimates included in the budget address presented to the House on May 9, 2006. I also submitted to the Public Accounts Committee on April 3 a report on my Office's performance in 2005 and a business plan for 2006.

**1.11** The report presents the results of the Office's audits and reviews conducted this year at a number of departments and agencies as well as some comments on financial reporting and controls. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Where departments or agencies have provided responses, they have been included. In future reports we will follow up on the implementation of our recommendations, with the expectation that significant progress will be made.

**1.12** A separate booklet also provides highlights and summaries from this report.

## SIGNIFICANT ISSUES AND COMMON THEMES

**1.13** In conducting our audits, we noted three issues that may have broader applicability beyond the particular entities in which the issues emerged.

**1.14** Firstly, in school boards, it appears that school-based funds may present a concern for management at most or all boards. The overall amounts of the funds involved, combined with what may be pervasive poor controls, may expose school boards to risks of financial loss and the chance of fraud. It would be prudent for all boards to examine their policies with respect to these funds and ensure that appropriate controls are in place.

**1.15** Secondly, where agencies are managed by appointed CEOs, we have found that there can be a tendency for boards of directors to neglect their responsibilities to assess the performance of the CEO and keep him/her accountable to the board. Such a weakness in the organization's governance framework may have unpredictable consequences and is, in any event, poor practice. Governing boards may wish to examine their practices in this area.

**1.16** Thirdly, examinations of information technology systems tend to reveal weaknesses in processes related to access and security. Such weaknesses can expose the systems to various forms of error and potential abuse. Managers of complex IT systems may wish to review their access controls to ensure they remain effective.

## EXECUTIVE SUMMARY BY CHAPTER

**1.17** The Report presents our findings, conclusions and recommendations resulting from audits and reviews in the following areas. Responses received from auditees have been included in the appropriate chapter.

### Government-Wide Issues

Chapter 2 Government Financial Reporting

**1.18** In May we reviewed and reported on the revenue estimates included in the government's 2006-07 budget tabled on May 9, 2006. Our report again included a reservation of opinion, based this year on two factors: a scope limitation resulting from insufficient access to information; and a qualification related to issues of compliance with generally accepted accounting principles. As the budget was not approved by the House before dissolution, this Office will once again review and report on the revenue estimates that will be included in the new budget to be introduced.

**1.19** The chapter also discusses our planning for the audit of the March 31, 2006 consolidated financial statements and identifies some potential issues related to compliance with GAAP.

Chapter 3 Government Systems and Controls

**1.20** Audits by this Office and external firms, over the last few years, of the Province's SAP financial systems have identified significant weaknesses in internal controls that have yet to be addressed. With the continuing expansion of SAP to other areas of government, such as the planned implementation in the Health sector, it is critical that fundamental controls be strengthened.

### Community Services

Chapter 4 Information Technology and Financial Controls

**1.21** Our audit of IT system controls in Community Services identified serious control weaknesses in a number of areas, such as inadequate access controls, inadequate planning and a lack of programmed dollar limits on electronic funds transfers. These weaknesses expose the Department to potential fraud and financial loss.

### Office of Economic Development

Chapter 5 Nova Scotia Research and Innovation Trust

**1.22** We recommended improvements to ensure funding recipients are held more accountable for the funds received through this program and to provide regular reports of expenditures and the achievement of project goals. The Department has taken steps to begin implementing improvements in these areas.

## Education

Chapter 6 Atlantic Provinces Special Education Authority

**1.23** Notwithstanding the quality of services provided by APSEA, we found a number of areas where improvements are needed to strengthen the governance framework. In particular, legislation governing APSEA in Nova Scotia is outdated; the Board of Directors needs to improve some aspects of its governance practices; a long-term strategic plan, and annual business plans, are needed; and APSEA needs to compare the current service delivery model to other models, to optimize efficiency.

Chapter 7 Conseil scolaire acadien provincial

**1.24** In addition to its normal educational responsibilities, the Conseil is charged with promoting the Acadian language and culture. Given its distinct mandate, the Conseil faces ongoing challenges in pursuing its mandate while maintaining efficient economical administration. The Conseil, for instance, maintains a separate student transportation system Province-wide. While our examination of governance and controls was for the most part favourable, we made a number of recommendations to strengthen operations and governance practices, notably in the area of school-based funds.

Chapter 8 Strait Regional School Board

**1.25** We examined selected areas of the Board's operations and for the most part conclusions were favourable. We made a number of recommendations to improve operations and reduce costs, notably with respect to student transportation and governance responsibilities such as monitoring of organizational goals and evaluation of the Superintendent's performance.

## Health

Chapter 9 District Health Authorities – Colchester East Hants, Cumberland and Pictou County

**1.26** While we found financial management processes to be adequate overall at these DHAs, we made some recommendations to improve some internal controls and financial processes. We also recommended the Department of Health improve the timing of approvals for business plans and funding levels as required by the Health Authorities Act.

Chapter 10 Payments to Physicians

**1.27** An audit by this Office in 2000 identified concerns, including poor accountability, with the implementation of alternative funding arrangements for physicians. These concerns were repeated in a 2005 consulting report and in the current audit. While a new framework was recently approved in principle, it has not yet led to improved funding contracts. We also noted that no action has been taken on our 2003 recommendation to review the risks of accepting expired health cards.

## Natural Resources

Chapter 11 Sustainable Timber Supply

**1.28** In this review we noted that the Department of Natural Resources has achieved its goal of doubling forest production. There are, however, concerns about the achievement of sustainability, particularly on private land - a potentially conflicting goal. Further, the Department has not implemented its goal of issuing periodic public reports on sustainable forestry in Nova Scotia.

# Government-Wide Issues

# 2 GOVERNMENT FINANCIAL REPORTING

## BACKGROUND

2.1 Members of the Legislative Assembly need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.

2.2 The Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province under the provisions of the Provincial Finance Act. Certain of these assignments include the need for Executive Council approval or ratification of planned actions.

2.3 The Provincial Finance Act defines a number of financial reporting requirements for the Minister or Deputy Minister of Finance to meet on behalf of government. Further, Section 73 of the Provincial Finance Act requires that crown corporations' business plans, audited financial statements and proposed public financing be tabled in the House of Assembly each year.

2.4 As a foreign registrant of the Securities and Exchange Commission in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.

2.5 In addition to required financial reporting, government may and periodically does, at its discretion, release other financial information or reports publicly.

2.6 Professional standards require that the auditor of an entity with public accountability, like the Province, communicate with those having oversight responsibility for the entity's financial reporting process. For the Province's financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

## CHAPTER OBJECTIVES

2.7 The Auditor General Act provides a broad mandate for the Office to examine and report on the use and control of public resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual reporting by the Auditor General on the Province's consolidated financial statements (an audit, with high assurance) and government's revenue estimates (a review, with moderate assurance).

2.8 The annual financial statements of various crown entities and trusts, depending on statutory or other arrangements, are audited and reported upon by either

the Auditor General or a public accounting firm. We consider the results of those financial statement audits, as well as other government financial reporting, where appropriate, during the conduct of the Office's discretionary broad scope assignments in selected areas each year.

**2.9** *The purpose of this chapter is to provide summary comments and observations* on the government's financial reporting, including information on the results of our review of the government's 2006-07 revenue estimates included in the May 9, 2006 budget documents, and our planning for the audit of the Province's March 31, 2006 consolidated financial statements.

## RESULTS IN BRIEF

**2.10** The following summarizes our principal observations in this chapter.

- The Auditor General's opinion on the 2006-07 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House of Assembly on May 9, 2006 along with the government's budget documents. The opinion was qualified for the following:

  - First, we were not able to obtain sufficient appropriate information to complete a review of recoveries, user fees and revenues of certain governmental units. As a result of this scope limitation, the Auditor General was unable to form an opinion as to the reasonableness of the estimates of these revenues or the support for their underlying assumptions.

  - Further, sinking fund earnings and revenues of certain governmental units were excluded from the revenue estimates and included elsewhere in the estimates. As a result, the revenue estimates were not presented on a basis consistent with the Province's consolidated financial statements. In addition, certain recoveries and user fees were excluded from the revenue estimates and netted against expenses elsewhere in the estimates. To the extent of these exclusions, the 2006-07 revenue estimates are not presented in accordance with generally accepted accounting principles (GAAP).

  A more detailed reporting of the results and observations from our examination of the government's 2006-07 revenue estimates included in the May 9, 2006 budget documents was provided to the Department of Finance in a management letter in June 2006.

  A general election was called for June 13, 2006 before the 2006-07 budget tabled on May 9, 2006 was approved by the House. As a result, a 2006-07 budget will need to be tabled after the election. We will review and report separately on the revenue estimates for 2006-07 included in that budget.

- The target deadline for providing our opinion on the Province's March 31, 2006 consolidated financial statements, for printing purposes, is September 21, 2006. The scheduled date assumes government will meet year-end accounting and audit readiness requirements.

  At this point, our preliminary planning and analysis has identified a number of issues to be addressed by government, relating primarily to compliance with GAAP. The most significant issues include:

  - inclusion of comparative consolidated budget information on the financial statements, in particular on the statement of operations and accumulated deficit;
  - reporting all revenues including user fees, recoveries and federal transfers, and expenses, on a gross basis, without netting revenues against expenses;
  - accounting for a number of small government units previously not fully reflected in the consolidated financial statements; and
  - accounting for various year-end spending initiatives approved by Treasury and Policy Board in March 2006.

  As a result of audit work completed by this Office and by other auditors, significant internal control weaknesses have been identified in certain financial control areas which require management's attention (see Chapter 3).

- Additional appropriations of $159.4 million for 2004-05 expenses were approved on December 20, 2005 by Order in Council 2005-572. No special warrants have been approved since our last Report. Based upon 2005-06 forecast information included in the May 9, 2006 budget documents, additional appropriations in excess of approximately $90.0 million will be required for 2005-06.

## PRINCIPAL FINDINGS

### Results of Review of Government's Estimates of Revenue

**2.11** The Auditor General's Report on the 2006-07 Revenue Estimates, required under Section 9B of the Auditor General Act, was tabled in the House on May 9, 2006 along with supporting information for the 2006-07 Nova Scotia budget. Exhibit 2.1 on page xx is a copy of the Report. It contained a reservation of opinion related to a scope limitation and non-compliance with GAAP.

**2.12** A more detailed reporting of the results and observations from our examination of government's 2006-07 revenue estimates included in the May 9, 2006 budget documents was provided to the Department of Finance in a management letter in June 2006.

**2.13** The management letter discusses a number of other issues and findings from our review. For instance, we were not able, based on the supporting information provided, to conclude that the Provincial economic assumptions for corporate profit growth for 2005 and 2006 were reasonable. As well, we did not agree with the decision to exclude any estimate for revenues from offshore licence forfeitures in 2006-07.

**2.14** For purposes of the review, one new accounting standard needed to be considered - Public Sector Accounting Board Handbook (PSAB) Section 1150, *Generally Accepted Accounting Principles (GAAP)*. The section provides direction on the primary and secondary sources of reference in determining GAAP compliance (i.e., a GAAP hierarchy) for the public sector in Canada. This standard now restricts the options available in the preparation of financial information on other than a GAAP-compliant basis.

**2.15** To ensure compliance with current requirements of PSAB and with generally accepted auditing standards, our review this year was planned to include all revenue elements in the 2006-07 budget that meet the definition of revenues under GAAP. In comparison to our previous year's review, we estimated that additional elements included this year represented more than $1 billion. Our additional information requirements were communicated to the Department of Finance in February 2006. Difficulties encountered in obtaining sufficient information to assess the reasonableness of some revenues and the support for their underlying assumptions led to a qualification in the Report. The continued presentation of some revenues on a basis not compliant with current GAAP standards, such as netting against expenses, also led to a qualification in the Report.

**2.16** For purposes of the review, the estimates of revenue encompassed the following components included in the government's budget:

- total ordinary revenue;
- net income of government business enterprises;
- sinking fund and public debt management fund earnings;
- recoveries, user fees and other revenue netted against expenses; and
- revenue of governmental units included in the Consolidation and Accounting Adjustments section of the budget summary.

**2.17** The government has consistently articulated its policy of preparing its public financial reports in accordance with generally accepted accounting principles for the public sector. We note the following statements made by government with respect to the basis of accounting used for its budget.

- As part of the offshore accord process, in a February 14, 2005 letter to the Federal Minister of Finance, the then Minster of Finance stated "*The Province of Nova Scotia has adopted generally accepted accounting principles and on this basis the Minister of Finance has tabled balanced budgets for the fiscal years 2002-03; 2003-04; 2004-05*".

- Further, the Nova Scotia Budget publication for 2005-06 included the following on page D10: "*The borrowing program starts with the provincial budgetary*

surplus that reduces requirements. As the provincial budget is produced on a fully GAAP-compliant basis, there are numerous cash versus accrual adjustments...." The Nova Scotia Budget - Assumptions and Schedules publication for 2006-07 issued with the May 9, 2006 budget documents included the same phrase.

**2.18** Such public statements put the onus on government, as the preparer of the Province's key financial reports, to ensure its representations are fully met not only for the consolidated financial statements, but also for the budget.

**2.19** Accounting pronouncements also require that financial forecasts (including budgets) be prepared on a basis consistent with related financial reports.

**2.20** The December 2005 Report of the Auditor General noted that the budget should be prepared on the same basis as the consolidated financial statements and comply with GAAP.

**2.21** Management has indicated that they intend to work towards improving the budget presentation to make it more consistent with GAAP requirements and to improve the accessibility of materials required by this Office to perform the annual review of revenue estimates.

**Recommendation 2.1**

**We recommend that the revenue estimates included in the budget be prepared and presented in full accordance with generally accepted accounting principles.**

**2.22** A general election was called for June 13, 2006 before the 2006-07 budget tabled on May 9, 2006 was approved by the House. As a result, a 2006-07 budget will need to be tabled after the election. We will review and report seperately on the revenue estimates for 2006-07 included in that budget.

## Planning for the Audit of Province's Consolidated Financial Statements

**2.23** Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the government's annual consolidated financial statements.

**2.24** The December 2005 Report of the Auditor General, released in January 2006, provided summary observations and recommendations on the results of our audit of the Province's March 31, 2005 consolidated financial statements which were released in September 2005 as part of Volume 1 of the Public Accounts. That Report pointed out some areas in which the financial statements did not fully comply with GAAP, including omission of budget comparisons and netting of revenues, and recommended changes to comply with these requirements.

**2.25** The target deadline for providing the opinion on the Province's March 31, 2006 consolidated financial statements, for printing purposes, is September 21, 2006.

The scheduled date assumes government will meet year-end accounting and audit readiness requirements on a timely and appropriate basis.

### GAAP compliance

**2.26** The December 2005 Auditor General's Report identified certain areas in which the Province's consolidated financial statements are not yet fully in compliance with GAAP, and recommended that steps be taken to ensure fuller compliance. Our preliminary planning and analysis indicate that the following issues will need to be addressed by management when preparing the March 31, 2006 consolidated financial statements. All were previously noted in the December 2005 Report.

- The consolidated financial statements do not include budget amounts for line items on the consolidated statement of operations and accumulated deficits or the consolidated statement of change in net direct debt. This disclosure is required by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board (PSAB). The inclusion of these comparative numbers could present a challenge as the 2005-06 budget was not fully prepared or presented on the same basis as the financial statements. A reconciliation between the budget information on the statements and the approved budget for 2005-06 will need to be included in the notes to the financial statements.

- PSAB standards require that revenues and expenses be reported at gross values. However, in prior years a number of recoveries and user fees have been netted against expenses on the consolidated statement of operations and accumulated deficits rather than being reported separately as revenues. The impact of this accounting treatment is to understate both revenues and expenses reported, with no net impact on the reported surplus or deficit.

- Similarly, a number of federal transfer payment revenues have been reported as recoveries and netted against related expenses. We have been informed that these revenues are treated as recoveries in order to be consistent with treatment in the budget. However, as noted above, this presentation is not GAAP compliant.

- A number of smaller crown entities and government partnership arrangements are not yet fully and appropriately accounted for in the consolidated financial statements. The impact of this is an understatement of net assets and an overstatement of net direct debt which should be corrected in the 2005-06 results.

- When consolidating the tangible capital assets (TCA) balances of entities included in government's consolidated financial statements, those balances are not adjusted to comply with the government's TCA accounting policy requirements for such factors as thresholds and amortization rates. GAAP requires that, as part of the consolidation process, the accounting for government organizations (other than government business enterprises) be adjusted to be consistent with the government's accounting policies.

**Recommendation 2.2**

**We recommend that the consolidated financial statements be prepared and presented on a basis fully compliant with generally accepted accounting principles.**

## Systems and controls

2.27 The government, and management of the Department of Finance, are responsible for the preparation of the Province's consolidated financial statements. They also have responsibilities related to the maintenance of appropriate effective internal controls, such as designing and maintaining accounting policy statements and control procedures, safeguarding assets, preventing and detecting error and fraud, and maintaining awareness of circumstances that could result in fraudulent financial reporting.

2.28 In conducting our audit, we will obtain a sufficient understanding of the systems and controls to plan the audit. Where we plan to rely upon controls, sufficient audit evidence is obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2006 consolidated financial statements will not be planned or conducted in order to conclude on the adequacy of the overall level or quality of controls.

2.29 The following are some of the key control issues of which we are aware and will consider as part of finalizing our strategy and approach to the 2005-06 financial statement audit:

- the implications of the deficiencies identified in the service auditors' report on the general environmental controls for the centralized SAP infrastructure (see Chapter 3, paragraphs 3.14 to 3.26);

- the implications of the deficiencies identified in the SAP application controls audit completed under contract for this Office (see Chapter 3, paragraphs 3.8 to 3.13); and

- the implications of the denial of opinion and deficiencies identified in the audit of the governance and control framework of the operations of the Investment, Liability Management and Treasury Services and Capital Markets Administration Divisions completed by a private sector firm during 2004 (see December 2004 Report of the Auditor General, Chapter 3, paragraphs 3.18 to 3.21).

2.30 In addition to the above matters, we will also consider the results of an audit of the new SAP HR module implemented in core government April 1, 2005. The audit is to be completed by external SAP specialist audit resources sponsored jointly by this Office, the Department of Finance and the Public Service Commission.

### Miscellaneous items

2.31 As part of our planning for the audit of the March 31, 2006 financial statements, we have identified the following specific accounting considerations:

- accounting for various spending initiatives approved by Treasury and Policy Board in March 2006;
- accounting for and disclosure of various federal transfers, initially recorded as deferred revenue, against specific expenses incurred; and
- accounting for and disclosure of the various elements of the N.S. Teachers' Pension Plan amendment included in the June 22, 2005 agreement between the Nova Scotia Teachers' Union and government.

## Other Matters

### Additional appropriations and special warrants

2.32 Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the December 2005 Report of the Auditor General, Chapter 2. We provide the following updated comments.

2.33 Under the provisions of Section 28 of the Provincial Finance Act, on December 20, 2005 Executive Council approved Order in Council 2005-572 approving additional appropriations for 2004-05 of $132,992,000 for net program expenses and $26,451,000 for debt servicing costs.

2.34 As per the 2005-06 forecast information released in the Minister of Finance's May 9, 2006 budget documents, subject to year-end accounting or audit adjustments, additional spending authority (additional appropriations) of more than $90 million will need to be approved by Order in Council within 90 days of the government's release of the March 31, 2006 consolidated financial statements. We observe that while the Provincial Finance Act sets a deadline by which the additional spending authority must be approved, it does not prevent approval on a more timely and effective basis.

2.35 We note that since our last Report, there have been no special warrants approved by Executive Council under Section 29 of the Provincial Finance Act.

## CONCLUDING REMARKS

2.36 While considerable progress had been made since 2000, further improvements are required in government's financial reporting to bring the government's budget and the Province's consolidated financial statements fully into compliance with GAAP.

**2.37** The Department of Finance indicated its intention to complete a review of its primary financial reporting vehicles to determine potential improvements. The review was to include stakeholder consultations. While we continue to support such an initiative, it is our understanding that little progress has been made during 2005-06, and approval of the terms of reference for the review has been significantly delayed.

**2.38** As indicated in the December 2005 Report of the Auditor General, we support the government's plans to review the content of its financial reports to ensure they meet the needs of users. However, revised reports resulting from this review should be in accordance with generally accepted accounting principles.

## Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2007 used in the preparation of the May 9, 2006 Budget Address

Exhibit 2.1

I am required by Section 9B of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2007 (the 2006-07 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of March 30, 2006 or earlier. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the 2006-07 revenue estimates. My examination did not include, and my opinion does not cover, the budget speech, the 2005-06 forecast or the 2006-07 expense estimates. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

I was not able to obtain sufficient appropriate information to complete my review of recoveries, user fees and revenues of certain governmental units. As a result, I have been unable to form an opinion as to the reasonableness of the estimates of these revenues or the support for their underlying assumptions.

Further, sinking fund earnings and revenues of certain governmental units are excluded from the revenue estimates and are included elsewhere in the estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements. In addition, certain recoveries and user fees are excluded from the revenue estimates and netted against expenses elsewhere in the estimates. To the extent of these exclusions, the 2006-07 revenue estimates are not presented in accordance with generally accepted accounting principles.

In my opinion, except that certain revenues have been excluded from the revenue estimates as noted in the preceding paragraph, and except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to obtain sufficient information with respect to certain revenues, as discussed above,

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by departmental management, and provide a reasonable basis for the 2006-07 revenue estimates; and
- the 2006-07 revenue estimates as presented reflect fairly such assumptions; and
- the 2006-07 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2006-07 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
May 5, 2006

## DEPARTMENT OF FINANCE'S RESPONSE

Thank you for the opportunity to comment on Chapter 2, Government Financial Reporting of the June 2006 Report of the Auditor General. This chapter deals primarily with three items; the review of the 2006/07 Revenue Estimates, the upcoming audit of 2005/06 audit of the Public Accounts and the System and Control findings, the details of which are provided in Chapter 3 of this same report. I will provide comment on that Chapter in a separate response.

As far as the audit of the 2005/06 Public Accounts audit is concern, I will reserve comment until that process is complete other than to say that the items mentioned were previously discussed with the Office of the Auditor General (OAG) and in management's view have no material impact on the financial results included in the Public Accounts. That leaves the 2006/07 Revenue Estimates Review to provide comment on.

The OAG has, for a number of years, provided a qualification on the Revenue Estimates of the Province. The qualification primarily related to departmental expenditure budgets being presented on a net as opposed to gross basis. The issue of netting revenues against expenditures has merit from a departmental accountability perspective, but is not compliant for GAAP presentation purposes. Staff indicated to your office that this presentation concern would be included in the proposed review of our financial documents. Based on the review to date by Government Accounting, we have determined that changes will be made in our presentation which will move more of the revenue sources into our ordinary revenue, starting in the 2007/08 budget.

It was not until late in the budgetary process that it became apparent the current review would expand its scope to contain all five elements included in paragraph 2.14 of your report. Since 1994 when the OAG review of revenues commenced, the review was confined to the first two items; Ordinary Revenue and Net Income from Government Business Entities. Thus, the broader review was unanticipated by management until your letter of April 21, 2006. In Management's opinion, once the OAG's intentions were known, there was not sufficient time for inclusion of the remaining three items without impacting Budget Day. In some cases, management would have required significant time to prepare and present the required documentation. In all cases, we believe that the OAG review of this material could not be completed within the proposed time lines.

The inclusion of revenue of government units included in the Consolidation and Accounting Adjustments section would require the Province to move to consolidated budgeting. (It should be noted that revenue of government units refers to non-provincial revenue sources for consolidated entities such as municipal contribution to school boards and foundation contributions to health

authorities.) The move to consolidated budgeting would be a major undertaking which would completely change the current budget methodology used by the Province. I do not anticipate any change in this direction in the near future. However, to address this concern, the Province will, starting with the 2005/06 Public Accounts, provide a reconciliation between the Estimates presentation and the Public Accounts.
Finally, a review of recoveries would require, amongst other things, a review of expenditure estimates, which clearly goes beyond the mandate of section 9B of the *Auditor General's Act*.

In conclusion, readers of this Chapter should also take note that the Province, once again, was able to obtain assurance that the revenues included in Ordinary Revenue and net income from Government Business Entities are reasonable.

# 3 GOVERNMENT SYSTEMS AND CONTROLS

## BACKGROUND

**3.1** Government financial, program and other management activities are facilitated or supported by a variety of systems and control processes. These include a number of corporate or government-wide systems (e.g., Corporate Financial Management System – CFMS/SAP); or processes (e.g., annual business planning, budgeting and accountability reporting; procurement). There are also numerous entity or program-level systems and processes.

**3.2** Government's business systems and technology initiatives are subject to oversight review by the Business Technology Advisory Committee (BTAC), which is a committee of deputy ministers reporting to Treasury and Policy Board (TPB). Initiatives within crown entities are governed by their respective governing board or other appropriate body.

**3.3** Although not specifically quantified, the costs of acquiring, implementing, operating and maintaining systems and control processes within the Provincial public sector are significant. However, a more important factor is the quality and cost-effectiveness of the systems and control processes in mitigating financial and other risks of managing government programs and services.

## RESULTS IN BRIEF

**3.4** The following are our principal observations presented in this chapter.

- An audit of application controls in the government's corporate financial management system (CFMS/SAP) identified several significant weaknesses, many of which have been previously reported.
- The second independent service audit of the SAP Customer Competency Centre at the Department of Finance, reported in April 2006, once again contained a reservation of opinion based on the nature and extent of general computer environment control weaknesses identified. The Centre provides the infrastructure and processing environment for a variety of public sector entities and their SAP applications.
- Both 2006 audits of the government's corporate financial management system (SAP) reported significant system and control weaknesses, many of which had been reported in prior years' audits.
- The results of the annual independent audit of control procedures over processing on government's large mainframe computer systems provide reasonable, but not absolute, assurance on the adequacy of controls.

- We are planning an audit of the SAP Human Resources (HR) module in the near future which will be reported in our December 2006 Report. The budget for the implementation of the SAP HR module for the Province and the School Boards has escalated to $24.6 million from the original budget of $5.7 million.

## SCOPE

**3.5** The Auditor General Act provides broad mandates for the Office to examine and report on the use and control of public funds or resources by government, its entities, and recipients of financial assistance. Management is responsible for the implementation and maintenance of appropriate and effective internal controls.

**3.6** The purpose of this chapter is to provide summary observations and information on the government's systems and control processes in order to assist the House of Assembly, and its Public Accounts Committee, to hold government accountable for the adequacy of systems and controls over the use of public funds or resources. Other chapters of this Report may also include related observations as a result of audit examinations in specific areas or entities.

**3.7** Certain of the comments in this chapter are not the result of formal, completed audits but rather the result of ongoing review and enquiry procedures, and are provided herein for information purposes only.

## PRINCIPAL FINDINGS

### Audit of SAP Application Controls

**3.8** In early 2006 we contracted with a public accounting firm to perform an audit of the application controls within the SAP system. The scope of this audit focused on the controls across the primary SAP business processes contained in the government's SAP corporate financial management system. The general computer environment controls surrounding SAP as well as the HR module of SAP were excluded from the audit scope.

**3.9** The objectives of this audit were:

- to identify SAP application controls and SAP application control weaknesses in applicable business cycle areas; and
- to conclude on whether the identified SAP application controls were operating effectively throughout the period of anticipated reliance.

**3.10** The following conclusions were reported by the auditors in their letter dated April 24, 2006:

> "...Our conclusion on the reliability of SAP-based business process controls is as follows:

- *Generally speaking, our review indicated that the SAP application modules in scope for our review are configured to include the appropriate controls over transaction accuracy, validity and completeness; however, some weaknesses have been identified and recommendations for improvement have been provided in our Letter of Recommendations.*

- *Given the level of access granted to users within SAP, however, including the number of users who have access to execute incompatible functions within SAP, we conclude that SAP-based application controls were not operating effectively throughout the period of anticipated reliance and therefore recommend that they not be relied upon for purposes of the annual audit for any of the business cycles reviewed, specifically fixed assets, expenditures, financial reporting, revenue, and inventory."*

**3.11** As noted in the above conclusion, the level of inappropriate access granted to users of SAP was the primary reason the auditors could not conclude positively on application-based controls. The auditors identified 24 weaknesses in application controls and categorized them as follows:

- High Risk 5
- Moderate Risk 14
- Low Risk 5

**3.12** Several of these weaknesses have been previously reported as the result of prior audits performed in 2003 and in 1998. The 2003 report identified 5 of the 24 weaknesses while the 1998 report identified 12 of the 24 weaknesses. Further, 3 of these weaknesses were reported in both 2003 and 1998 and still remain unresolved.

**3.13** The nature, extent and history of the weaknesses reported should be of concern to management.

**Recommendation 3.1**

We recommend that management implement industry-recognized control best practices for SAP applications to address the weaknesses reported.

## Service Audit of the SAP Customer Competency Centre of the Department of Finance

**3.14** The Department of Finance operates and supports the SAP corporate financial management system for government as well as other public sector entities such as school boards and municipalities.

**3.15** These entities have responsibility for governance and management, and each have their own auditors who also require assurance as to the adequacy of controls surrounding their clients' systems.

**3.16** Assurance is provided through a service audit. An independent audit is performed at the request of the service providers (Finance) and the report is shared with the clients and the auditors of the clients of the service provider.

**3.17** In 2004, the government contracted the services of a public accounting firm to perform a service audit of the SAP Customer Competency Centre (CCC) which is responsible for the management and maintenance of the government's SAP corporate financial management system. This was a multi-year contract requiring an initial audit of the controls at a point in time in November 2004. The contract then required a second audit to cover the period from November 2004 to March 31, 2005. This second audit was cancelled due to a shift in the focus of CCC's attention to implementation of the Provincial HR system. The next audit under the contract was to cover the period of April 1, 2005 to March 31, 2006. This latest audit was completed and a report was issued on April 7, 2006.

**3.18** An excerpt from page 6 of the auditors' report in 2006 describes the audit as follows:

> *"...The audit concentrated on the specified control objectives, minimum control standards, and control techniques which were established from published CICA control objectives and agreed by the Nova Scotia Department of Finance as being appropriate to ensure the adequacy of controls over access to, protection of, operation of, and management of shared services computer operations related to services provided by the CCC..."*

**3.19** The initial audit of November 2004 resulted in a reservation of opinion by the auditors as the result of weaknesses identified. The 2006 audit also contains a reservation of opinion based on the nature and extent of weaknesses identified. Exhibit 3.1 on page 30 is the latest auditors' report on control procedures of the SAP Customer Competency Centre.

**3.20** We have compared the auditors' reports dated 2004 and 2006. See Exhibit 3.2. The 2004 report identified 14 weaknesses across 9 of 33 control objectives. The 33 control objectives contained 130 control procedures. The 2006 report identified 30 weaknesses across 18 of 31 control objectives. The 31 control objectives contained 115 control procedures. Six of the weaknesses reported in 2004 were repeated in 2006. Further, in the executive summary of their report, the auditors itemize 22 of the 30 exceptions and categorize them as being significant findings. In their 2004 report, the auditors categorized 8 of the 14 exceptions as being significant findings.

**3.21** It is important to note that a service audit covering a period of time provides a much higher level of assurance than a service audit at a point in time, and accordingly is a much more thorough audit of the service provider's stated control objectives. This may explain why there were more weaknesses noted by the auditors in their 2006 audit.

**3.22** We note that recent correspondence from Finance management states

> *"...The Department of Finance has reviewed this report and has already begun the process*

to action items that were identified in the report as control activity exceptions. This year's report includes management comments to provide additional background to your management and auditors. In some cases, corrective actions have already been taken. In other cases, we will need to work with our service providers and clients to either correct or raise the issue with them for corrective action."

3.23 In reviewing management's specific responses to the noted weaknesses, their comments for each included in part "... but this control activity exception does not necessarily indicate that there is a high risk to the SAP operating environment."

3.24 It is important to recognize that many of the reported weaknesses are assessed by the auditors as representing significant risks. Certain of these weaknesses are also of a basic, fundamental nature and would not be expected in a mature system such as the Province's SAP environment which was implemented more than nine years ago.

**Recommendation 3.2**

**We recommend that management implement additional control techniques to remediate the identified weaknesses in the control standards adopted by management.**

3.25 Subsequent to receiving a copy of the Section 5900 Report, management provided us a copy of the auditors' Letter of Recommendations. We note that the Letter of Recommendations contains an additional thirteen observations with recommendations which are not included in the Section 5900 Report.

3.26 The auditors identified a total of 43 weaknesses and categorized them as follows:

| | High Risk | Moderate Risk | Low Risk | Total |
|---|---|---|---|---|
| Section 5900 Report | 9 | 9 | 12 | 30 |
| Additional items in the Letter of Recommendations | 3 | 8 | 2 | 13 |
| Total | 12 | 17 | 14 | 43 |

**Recommendation 3.3**

**We recommend that management provide information relative to these additional observations to all parties who were provided copies of the Section 5900 Report.**

## Government's Corporate Financial Management System - Summary Comments

3.27 The Nova Scotia government implemented SAP as its corporate financial management system on April 1, 1997. In the nine years since implementation,

several control-based audits have been performed and reported upon, each of which identified serious fundamental weaknesses in systems and controls:

- 1998 – SAP general environment and application controls
- 2003 – SAP general environment controls
- 2004 – SAP service audit, including general environment controls
- 2006 – SAP application controls
- 2006 – SAP service audit, including general environment controls

**3.28** The audits performed in 2006 are still reporting serious system and control weaknesses, many of a basic, fundamental nature, and many of which have been reported in the prior years' audits noted above. Further, following our 2003 report in which we identified serious weaknesses in security access privileges, we were given assurances that certain practices were discontinued and no longer in use. We performed a separate analysis of these same security weaknesses in late 2005 and early 2006 which revealed that, contrary to the assurances provided, these same practices of deploying inappropriate, powerful access privileges took place frequently over the period from 2003 to early 2006.

**3.29** Under the Provincial Finance Act, the Minister is ultimately responsible for the management of government's financial systems. Further, in Volume 1 of the Public Accounts of Nova Scotia there is a "Statement of Responsibility for the Consolidated Financial Statements of the Province of Nova Scotia" which includes the following in the third paragraph "*The government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.*"

**3.30** The continuing existence of certain fundamental control weaknesses reflects poorly on how well government has been fullfulling this responsibility.

**3.31** SAP has become a very widely-deployed system across the public sector of Nova Scotia. Currently, the SAP Customer Competency Centre is supporting almost all deployments of SAP in the Provincial and municipal public service. This includes the Nova Scotia government, school boards, regional housing authorities, several municipalities and, over the next few years, the Centre will be supporting the deployment of SAP to the District Health Authorities across the Province.

**3.32** The combined impact of the two recent audits prevents us from placing reliance on the SAP general information technology environment controls and the application controls for our audit of the Public Accounts. Planning is now well underway for implementing SAP for use in the District Health Authorities across the Province. This adds yet another very significant element to the existing dependence on SAP as the financial management system for the public sector in Nova Scotia. It is vital that management identify, and take the appropriate steps to address, all the noted weaknesses in controls prior to implementation in the health sector.

**Recommendation 3.4**

We recommend management implement controls to address reported weaknesses. Further, and as previously recommended in 2003, this process should include the implementation and regular monitoring of control best practices for all aspects of the SAP applications.

## OTHER MATTERS

### Provincial Data Centre Services

**3.33** In the 1990s, government entered into contract arrangements to outsource its Provincial data centre processing requirements. Those arrangements require an annual audit by an independent auditor of the contracted service provider's control procedures for the resources used for processing government's mainframe computer systems. This audit is performed in accordance with CICA standards and provides reasonable, but not absolute, assurance to government that the contracted service organization has in place appropriate control procedures for those matters that are its responsibility as at the date of the audit.

**3.34** Since the programs, processing and data for significant government systems reside at the data centre (including drivers' licensing, vehicle registration, property assessment, justice), the results of an independent control audit should be of interest to the Members of the House of Assembly. Exhibit 3.3 on page 32 is an extract from the most recent auditor's report on control procedures for the contracted services provided to government at the data centre. This audit addressed four control objectives.

**3.35** The report identifies the control procedures in place at the time of the review to support achievement of each of the four control objectives. The report also identifies a number of significant matters that are the specific and direct responsibility of government, which are not covered by the annual review and reporting. The report identified two exceptions to the control procedures as at December 30, 2005.

**3.36** This annual audit only relates to controls over government's mainframe computer systems, not the government's SAP systems or the Department of Health's Nova Scotia hospital Information System. The SAP systems are subject to a separate annual service audit which was reported in April 2006 (see paragraphs 3.14 to 3.24 of this chapter).

**3.37** Effective April 1, 2007, the government will cease to use the mainframe computer and will have migrated all of the current mainframe-based systems to alternate computer platforms.

### SAP Human Resources (HR) Module

**3.38** In March 2002, Executive Council approved funding to implement SAP's HR

module through a joint project named e-Merge, for government and school boards. The project was initially approved with a planned implementation on August 1, 2004 for school boards and October 1, 2004 for government. The original approved budget (capital and operating) for the combined project was $5.7 million. In 2004 the combined budget was increased to $14.4 million. Later in 2004, problems were encountered that caused implementation of the system to be delayed and the project to be split into two separate projects (one for the government and one for school boards).

**3.39** SAP HR was implemented for the government in April 2005. The school boards' project had been put on hold pending implementation of HR for the government. In July 2005, the school boards' project was approved for completion and was renamed JEM (Joint Education Mission). Executive Council approved an additional budget (capital and operating) of $10.1 million for the remainder of the project in 2005-06 and 2006-07. This brings the total budget approvals (capital and operating) for the two projects to $24.5 million as of April 2006. The school boards' project was reactivated on November 1, 2005 and is scheduled for implementation in January 2007.

**3.40** We are currently in the process of planning an audit of the SAP application controls for the HR module currently used by the government. We will once again be using contracted audit resources and plan to report the results in the December 2006 Report of the Auditor General.

## CONCLUDING REMARKS

**3.41** Good systems and controls can be costly, while too many or less than optimal controls can also be costly. Government's challenge is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control to be in place appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks. As a minimum, the nature and extent of controls should be sufficient and appropriate to satisfy government's stated control objectives and thereby enable an unqualified opinion by the auditors on all of the control objectives.

**3.42** The government has invested significant time and money in its corporate financial management and accounting systems. Recent audit results indicate that there are significant persistent fundamental control weaknesses that still need to be addressed.

**3.43** With government's intention to implement SAP systems in the Health sector, it is essential that all basic, fundamental control considerations be adequately dealt with prior to implementation.

Exhibit 3.1

## Auditor's Report on Control Procedures at the SAP Competency Centre

We have examined the accompanying description of the internal control objectives provided by the SAP Customer Competency Centre ("CCC") and the control procedures designed to achieve those objectives and have performed tests of the effectiveness of those control procedures for the period from April 1, 2005 to March 31, 2006. Our examination was conducted in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. As more fully described on pages 12 through 37, control procedures did not operate effectively during the reporting period. These related to:

- Staff terminations;
- Physical security;
- Audit logging;
- Security Policy content;
- Access to privileged accounts;
- Separation of duties;
- Change management;
- Application maintenance;
- Data backup; and
- Security administration.

In addition, as described on pages 14, 15, 18, 27, 30, 31, 35, and 36, certain control activities were not exercised during the period of the audit and therefore we were unable to test their operating effectiveness.

In our opinion, the control procedures included in the accompanying description were sufficient to meet the stated control objectives. The described control procedures were suitably designed to provide reasonable, but not absolute assurance that the control objectives described therein were achieved and, except as discussed in the previous paragraph, the control procedures operated effectively from April 1, 2005 to March 31, 2006. The description of stated internal control objectives as it relates to the SAP Customer Competency Centre and the control procedures designed to achieve those objectives, is as of March 31, 2006. Any projection of the description of internal control objectives to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the CCC is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, our tests of the operating effectiveness of specific controls cover the period from April 1, 2005 to March 31, 2006. The projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

Our audit focused on general environmental controls and those controls specifically related to the provision of SAP CCC services. We did not test the management controls or detailed user controls exercised by the individual end-user departments in connection with their initial implementation and on-going operation of front end data processing environments. Such controls are the responsibility of the individual end-user organizations.

This report is intended solely for the use of the management of the Province of Nova Scotia, the Office of the Auditor General, and clients served by the CCC.

Ottawa, ON, Canada
April 7, 2006

## Service Auditor Reports on the SAP Customer Competency Centre
## Comparison of Results 2004 to 2005-06

Exhibit 3.2

| Control Areas | 2004 | | | | 2005-06 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Control Objectives | Total Control Objectives with Noted Exceptions | Total Control Procedures | Total Control Procedures with Noted Exceptions | Total Control Objectives | Total Control Objectives with Noted Exceptions | Total Control Procedures | Total Control Procedures with Noted Exceptions |
| Management and Administration | 5 | 1 | 16 | 1 | 5 | 1 | 16 | 1 |
| Physical Access Control | 4 | 3 | 30 | 6 | 2 | 2 | 15 | 3 |
| Logical Access Control | 4 | 3 | 20 | 3 | 4 | 4 | 20 | 9 |
| Application Software Development and Maintenance | 1 | 1 | 10 | 3 | 1 | 1 | 10 | 5 |
| Computer Operations | 3 | 0 | 8 | 0 | 3 | 1 | 8 | 1 |
| Change Management | 6 | 0 | 10 | 0 | 6 | 4 | 10 | 6 |
| Client Services | 1 | 1 | 7 | 1 | 1 | 1 | 7 | 1 |
| Backup and Recovery | 4 | 0 | 17 | 0 | 4 | 1 | 17 | 1 |
| Technical Services | 5 | 0 | 12 | 0 | 5 | 3 | 12 | 3 |
| | 33 | 9 | 130 | 14 | 31 | 18 | 115 | 30 |

Exhibit 3.3

## Auditor's Report on Control Procedures at the EDS Data Centre

We have examined the accompanying description of the stated internal control objectives of the Government of Nova Scotia ["GNS"] mainframe partition at the Halifax Service Delivery Center of EDS Canada Inc. ["HSDC"] and the control procedures designed to achieve those objectives and have performed tests of the existence of those control procedures as at December 30, 2005. Our examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

As more fully described in the accompanying description, exceptions were noted in the following control procedures as at December 30, 2005:

System Security and Access Control

- Only authorized EDS personnel are granted access privileges to the DNS mainframe.

- The information security administrator reviews the access privileges of EDS system users and the access rules established within the access control software periodically for reasonableness.

In our opinion, the control procedures included in the accompanying description were suitably designed to provide reasonable, but not absolute, assurance that the stated internal control objectives described therein were achieved and except as noted above, the control procedures existed as at December 30, 2005.

As we tested the existence of the control procedures only as at December 30, 2005, we do not express an opinion on whether the control procedures existed at any other time.

The description of stated internal control objectives of the GNS mainframe partition at the HSDC, and the control procedures designed to achieve those objectives is as of December 30, 2005. Any projection of that description to the future is subject to the risk that, because of change, the description may no longer portray the control procedures in existence. The potential effectiveness of specific control procedures at the HSDC is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

HSDC has designed its control procedures with the assumption that certain controls will be implemented by GNS. Such complementary controls are required to achieve the stated internal control objectives.

Our audit was limited to the design and existence of information technology general controls at HSDC. We have performed no procedures to evaluate the design or existence of any of the controls in place at GNS, and accordingly we express no opinion on the design or existence of such controls. Such controls are the responsibility of GNS.

This report is intended solely for the use of GNS.

Halifax, Canada
January 31, 2006

## DEPARTMENT OF FINANCE'S RESPONSE

Thank you for the opportunity to comment on Chapter 3, Government Systems and Controls of the June 2006 Report of the Auditor General. This chapter primarily deals with findings of two audits, the SAP Application Controls audit and the Service Audit of the Customer Competency Centre of the Department of Finance.

Your report states that findings should be of concern to management and while I can assure the readers of your report that they are, it is important not to draw conclusions without reading the complete audit report and obtaining context for the audit findings. The SAP Application Controls audit states while our SAP application modules are configured to include appropriate controls, given levels of access, one should not rely on system controls for audit purposes. The narrow scope of this review did not look at our compensating controls outside of our SAP applications. It would therefore be inappropriate to assume that internal controls within the government should not be relied upon. In fact, this audit recommends "that the OAG identify, test and evaluate compensating controls and procedures that are not reliant upon the SAP application or modules, before a control reliance approach should be taken". I point this out as I feel it is important that all controls be reviewed before a conclusion is reached and I encourage your office to implement this recommendation as soon as possible.

While it is the view of management that compensating controls already exist for some of the findings and/or our current levels of access are appropriate given our organizational format, a team led by a senior financial official has already been established to review the findings and make recommendations for change where appropriate.

The Service Audit of the Customer Competency Centre should also be given some context before making any conclusions. The Service Audit process provides the context under which the linkage between stated policy, monitoring and compliance can occur in a controlled and predictable manner. This has allowed the control framework to be established that will allow us to remediate concerns that have been noted in past reports of the Auditor General. Management views the findings with concern and is actively making changes where warranted. Over the past two years, the CIS Division within the Department of Finance has documented its policies and procedures, communicated them to staff, as well as established an extensive audit process through the Service Audit to validate the adoption of best practices.

The Audit points out specific areas that are deemed to be "significant findings". Consideration must, however, be given to what is deemed to be significant. For example, one 'significant finding' related to moisture detectors that were not in place during renovations even though it was acknowledged that air conditioning units were operational. The Department of Finance will,

however, establish a multi-division team to review the Service Audit findings and a process will be put in place to ensure the management of the Customer Competency Centre implements all required changes in a timely and effective manner.

While there is room for improvement, I support the Controller's *Statement of Responsibility for the Consolidated Financial Statements of the Province of Nova Scotia* which states that government controls provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained.

# Department Audits

# 4 INFORMATION TECHNOLOGY AND FINANCIAL CONTROLS

## BACKGROUND

**4.1** Information technology impacts virtually every program and service administered by the Department of Community Services. Information technology is used to administer financial assistance and regulatory programs, pay suppliers, record operating transactions, as well as many other activities. The Department's widespread reliance on information technology has made control over information technology and related financial processes critical to efficient and effective departmental operations.

**4.2** Community Services provides financial assistance to eligible persons under a number of programs, including the Employment Support and Income Assistance (ESIA) program. Under this program, income assistance payments are made by cheque or direct deposit. Direct deposit payments are made once a month by way of electronic funds transfers (EFT). The Department's Finance and Administration section is responsible for financial controls over ESIA program payments, supplier payments, and transaction recording as well as other financial controls.

**4.3** The Department's Information Technology Services (ITS) section is responsible for managing the Department's information technology resources. The section's role is to maintain, improve and develop information technologies and services within the Department. Its key activities include acquiring information technology, setting access controls, supporting hardware and software, planning and training. The section is divided into three branches: technology infrastructure, production support and business solutions. ITS also provides services to the Department of Service Nova Scotia and Municipal Relations, the Children's Aid Societies, as well as to the regional housing authorities.

**4.4** Community Services has invested approximately $8.4 million in information technology hardware and software since 1999 and is in the process of implementing a significant new system referred to as the integrated case management system. The budgeted cost of this new system is $11.4 million, of which $5.7 million has been incurred as at March 31, 2006.

**4.5** At March 31, 2006, there were 41 ITS staff supporting 3,076 computer users located in offices throughout the Province. Community Services, the Children's Aid Societies, and the regional housing authorities account for 2,226 of these users.

**4.6** The Department of Community Services incurred $341.6 million of expense under the Employment Support and Income Assistance program, $7.8 million for ITS operating expenses and $3.9 million for hardware and software purchases during the year ended March 31, 2006. Hardware and software purchases include costs of $2.7 million related to the integrated case management system.

## RESULTS IN BRIEF

**4.7** The following are our principal observations from this assignment.

- Certain controls over the Department's general computer environment and electronic funds transfers for income assistance were adequate. However, we also identified significant control weaknesses which overshadow and erode the controls which we assessed as adequate. Accordingly, we concluded control in these areas is generally inadequate.

- A number of the control weaknesses identified in this chapter pose a significant risk of financial loss or other negative consequences, either through fraudulent actions or error. We concluded there are inadequate compensating controls to address these significant weaknesses.

- We identified inadequate monitoring of shared passwords and inappropriate computer access. Also, access rights of staff members who leave the Department were not canceled on a timely basis.

- There are no computerized dollar limits on electronic funds transfer transactions and no computerized edit checks on data sent to the bank for processing payments. Bank reconciliations are not being properly completed, and review and approval processes are not documented.

- Information technology purchases are being properly approved, accurately recorded and are in accordance with Provincial procurement and accounting policies.

## ASSIGNMENT SCOPE

**4.8** In January 2006 we completed a review of the general computer environment controls and an audit of controls over electronic funds transfers and information technology purchases at the Department of Community Services. This work represents the second phase of an assignment commenced in 2005. Phase one examined operations of the Department relating to income assistance and employment support, and child care centre licensing. Observations from phase one were reported in Chapter 6 of the December 2005 Report of the Auditor General.

**4.9** The scope of our review of general computer environment controls was limited to those for which the Department of Community Services has responsibility. The Department's information systems are integrated with other systems of the government of Nova Scotia, and certain information processing for Departmental programs is performed by entities external to the Department and government. We did not review any systems or controls operating outside the Department. Further, our review of the Department's information systems environment was restricted to staff interviews, observation of systems, review of documents and

testing of access rights. We did not perform detailed testing of all systems to determine if controls described to us operated effectively throughout the period of our review. Accordingly, we offer a moderate level of assurance in our assessment of general computer environment controls. Audit level assurance is provided for our conclusions on controls over electronic funds transfers and information technology purchases.

**4.10** The assignment was conducted in accordance with Section 8 of the Auditor General Act and assurance standards established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and procedures as we considered necessary in the circumstances.

**4.11** The objectives of this assignment were to:

- review general computer environment controls, including those relating to risk management, information technology planning, operations, security, change management, and end-user computing, as well as disaster recovery and business continuity planning;
- assess the adequacy of controls used to ensure electronic funds transfers for the Employment Support and Income Assistance program are complete, accurate, properly approved and for authorized purposes; and
- assess whether information technology purchases are properly approved, accurately recorded and in compliance with Provincial procurement and accounting policies.

**4.12** Our work included interviews with management and staff, as well as a review of systems, processes, agreements, policies and other documentation. Criteria were developed to assist in the planning and performance of the assignment. The criteria used in our review of general computer environment controls were derived from the *Information Technology Control Guidelines* of the Canadian Institute of Chartered Accountants. Other criteria used were specifically developed for this assignment. The criteria were discussed with senior management of the Department and accepted as appropriate.

## PRINCIPAL FINDINGS

### General Computer Environment Controls

**4.13** Our objective in this section of the assignment was to review control over the general computer environment within the Department of Community Services. Our review of controls included those relating to risk management, information technology planning, operations, security, change management, and end-user computing, as well as disaster recovery and business continuity planning. We noted areas where control is adequate, but also identified significant control weaknesses. The seriousness of the weaknesses and absence of adequate

compensating controls led us to conclude control over the Department's general computer environment is generally inadequate.

**4.14** Control over the Department's general computer environment is adequate in certain areas, including the following.

- Roles and responsibilities related to information technology are clearly defined and communicated.
- System infrastructure is housed in an appropriately-controlled environment.
- Controls are in place to ensure changes made to system applications are appropriately approved.
- There are processes to ensure users of Department computers are aware of significant security and other risks and take measures to address them.
- There is a formal planning and monitoring process for controlling information technology projects.

**4.15** Risk management and information technology policy - During our review, we noted the Information Technology Services (ITS) section relies on the government's Corporate Information Technology Organization in certain areas such as information technology security, disaster recovery and business continuity planning. This is appropriate because many areas of risk management are the responsibility of the Corporate Information Technology Organization. However, some areas of information technology risk management, such as computer access and application controls, are the responsibility of the Department. These have not been formally identified and evaluated by the Department. We were advised by the Department that these areas of information technology risk management will be addressed by a business continuity planning initiative currently underway. We noted the Department is in the process of creating a risk register which identifies and evaluates risks. This register also notes the strategies in place to address risks. It is very important that the Department identify and control all significant information technology risks that could lead to losses of public funds or government assets, interruptions in service delivery and/or failure to protect the privacy of personal information. We encourage the Department to complete this process as soon as possible.

**4.16** Management indicated they have a number of informal policies and procedures, such as requirements to complete project risk analyses, regularly review service level agreements and make timely changes to user access rights. We believe having informal, undocumented policies increases the risk of important processes not occurring as intended.

**Recommendation 4.1**

**We recommend the Department formally document significant policies and procedures relating to the use of information technology within the Department.**

4.17 Planning - The planning process within ITS is driven by the Department's overall business planning process. ITS contributes to the Department's plan and prepares project-specific plans, but does not prepare formal annual plans for its operations. The operations of ITS are extensive, involve high-risk processes and are critical to the success of the Department, as well as the other entities to which information technology services are provided. We believe operations of such magnitude and importance should prepare annual operational plans in order to control risks and ensure progress occurs as intended.

4.18 An information technology strategic plan was prepared in 2000. Management indicated it is still being applied to the Department's operations. However, technology has progressed significantly in the last six years and we believe the plan should be updated.

**Recommendation 4.2**

**We recommend the Department review and update its information technology strategic plan to ensure it reflects changes in information technology and continues to meet Department and user needs. We also recommend an annual business or operational plan be prepared for the Information Technology Services section.**

4.19 Service agreements and performance - ITS has service level agreements with the Department of Service Nova Scotia and Municipal Relations, the Children's Aid Societies, the regional housing authorities, and other divisions within the Department of Community Services. The objective of these agreements is to ensure user systems are operating in accordance with agreed upon standards. These agreements serve as the primary measure of performance for ITS. Senior management within ITS meet on a regular basis to discuss operations, projects and any issues identified by clients or ITS staff. ITS also compiles information on services provided. ITS uses these meetings and information on services provided as the basis upon which to assess the section's performance. While these measures are useful, we believe that more formal monitoring and reporting of performance would provide better information. In our view, informal assessments and reliance on user concerns and complaints as the primary measures of performance are inadequate for fully assessing the performance of the section.

**Recommendation 4.3**

**We recommend the Department develop performance outcomes, measures and targets for its**

Information Technology Services section and assess the performance of the section against these targets on a regular and timely basis.

**4.20** Access controls - Proper control over information technology includes controlling access to computers through the use of passwords and limiting computer access rights to only those necessary for staff to effectively fulfill their specific responsibilities. Unrestricted or inappropriate access to systems and data can increase the risk of unauthorized transactions or program changes, leading to financial losses and/or interruptions in services and programs administered by the Department.

**4.21** We reviewed access rights for seventeen individuals who had left the Department. We found nine (53%) of these individuals still had computer access rights at the time of our review. Five had network access, three had access to the income assistance program and one had access to both. Access to both the network and income assistance program represents a significantly higher risk. ITS management stated that access change documentation is often not received in a timely manner.

**4.22** Our audit identified segregation of duties issues within the Department. We noted certain accounting staff could initiate an ad hoc payment to an existing income assistance client. These individuals also have access to accounting records and are responsible for income assistance payments and bank reconciliations. Staff informed us that these access rights are not required to fulfill their position responsibilities. The ability to both initiate and account for payments is inappropriate from a control standpoint because it provides opportunity to initiate a fraudulent transaction and conceal or delete it from the books of account. We did not identify any compensating controls to mitigate this risk. Management advised us that access rights are being updated to address our concern.

**4.23** We also identified five individuals who share the same password to access a computer used in the processing of electronic funds transfers. Management advised us that, for technical reasons, it is necessary to share this password. However, computer logs are not used to monitor user activity related to this computer system. Use of this computer needs to be strictly monitored and controlled in order to prevent unauthorized changes which could result in financial losses or other negative consequences to the Department.

**Recommendation 4.4**

**We recommend the Department review user access rights to ensure they are limited to those necessary to effectively fulfill assigned job responsibilities. The Department should also ensure documentation related to access rights changes is completed and submitted to the Information Technology Services section on a timely basis. We further recommend that the Department monitor user activity on critical computer systems.**

**4.24** Recovery planning - Recovery planning is a critical component of any significant information technology operation. We noted that the Department has processes for systematic recovery if data and processing capabilities are lost, including use of offsite resources if needed. However, the Department has not formally documented or tested its recovery plans. We believe recovery planning should be formalized in the Department's information technology policies (see Recommendation 4.1) and risk management strategy (see paragraph 4.15).

## Electronic Funds Transfer Controls

**4.25** The objective for our audit of electronic funds transfers (EFT) for the Employment Support and Income Assistance (ESIA) program was to assess the adequacy of controls used to ensure electronic funds transfers are complete, accurate, properly approved and for authorized purposes. We noted some appropriate controls in this area. However, we also identified weaknesses significant enough to lead us to conclude control over electronic funds transfers is generally inadequate.

**4.26** The Department of Community Services provides financial assistance to persons eligible under the Employment Support and Income Assistance Act (see December 2005 Auditor General's Report - Chapter 6). Income assistance recipients can elect to have payments made by cheque or direct deposit. Direct deposit payments are made once a month by way of electronic funds transfers. During the month of March 2006, the Department issued 45,553 payments totaling $31.6 million of which 11,990 payments totaling $7.2 million were directly deposited to recipient bank accounts.

**4.27** We identified the following adequate controls relating to electronic funds transfers in the Employment Support and Income Assistance program.

- Records used by the bank to process electronic payments are reconciled with the payment records of the Department.
- Electronic files sent to the bank for processing electronic payments are encrypted.
- There is appropriate physical security provided for the computer used to process electronic funds transfers.
- Persons responsible for initiating and accounting for EFT payments have no access to the computer used to process electronic funds transfers.
- We did not identify any errors or unreconciled items in the eight EFT reconciliations we examined.

**4.28** Computer edit controls - We noted that the creation and transfer of direct deposit information to the bank making the deposit is automated. The Employment Support and Income Assistance (ESIA) system generates a payment list which details the income assistance payments to be made. This list is transformed by the

ESIA system into an EFT file, which is automatically transmitted to the EFT server for transfer to the bank for payment. Before payments are made, the bank sends a control statement back to the Department so the Department can reconcile the bank's totals to the ESIA system totals.

**4.29** However, we found that there are no computerized edit checks or review for unusual balances before the file is sent to the bank. In addition, there is no process to ensure the reconciliation of control totals has been completed before the bank processes payments. The bank automatically processes payments three days after a control statement is sent to the Department, whether or not the reconciliation has occurred. This weakness is exacerbated by the system deficiencies identified in paragraphs 4.21 and 4.22.

**Recommendation 4.5**

**We recommend the Department implement computerized edit checks of electronic funds transfer data and a process to ensure reconciliations occur before the bank makes income assistance payments.**

**4.30** In paragraphs 4.21 to 4.23 we identified weaknesses related to control over who can access the systems used to create and process EFTs. The related risks are significantly exacerbated by the lack of a programmed dollar limit on EFT payment transactions. If a person could manage to access the system for purposes of initiating a fraudulent payment, there is no limit on how large this transaction and the resulting loss to the Department could be.

**Recommendation 4.6**

**We recommend the Department modify its electronic funds transfer systems to set a limit on the size of individual electronic funds transfer payments.**

**4.31** Bank reconciliations - Our examination of bank reconciliations identified unreconciled differences and long outstanding cheques for which explanations were not provided. Neither of these relate to EFTs, but represent, nonetheless, significant control weaknesses. Bank reconciliations are critical for ensuring all bank transactions are properly recorded. We noted reconciliations were not signed by the preparer or the reviewer. Management advised us that reconciliations are reviewed and approved but were not signed due to the unreconciled items. In the absence of a documented review and approval process, we were unable to determine whether the review and approval process was occurring as described to us. Documentation of the process would help ensure bank reconciliations are properly performed according to schedule, reviewed appropriately and that all appropriate adjustments are made on a timely basis. We believe unreconciled differences and long outstanding cheques should be fully resolved.

**Recommendation 4.7**

We recommend the Department ensure the bank account is fully reconciled. In addition, reconciliations should be reviewed and approved and there should be documented evidence of the review and approval.

4.32 Policies and procedures – Our audit found there are no government-wide or Departmental policies or procedures to guide staff involved in electronic funds transfers. We noted Community Services has only partially documented its EFT process.

**Recommendation 4.8**

We recommend the Department formally document all policies and procedures related to its electronic funds transfers.

4.33 Data security - EFT transactions for the Department are administered in accordance with an agreement between its bank and the Department of Finance. The Department of Community Services does not have an understanding of the controls in place at the bank to protect the integrity and use of the Department's EFT data. For example, there is no formal agreement on how the bank should protect the privacy of personal information related to income assistance clients. There is no detailed understanding of the level of security provided by the encryption applications used by the bank to transfer EFT files from the Department to the bank. We believe the Department should discuss control over the privacy and security of EFT data with the bank and enter into an agreement which results in an acceptable level of risk to the Department.

**Recommendation 4.9**

We recommend the Department or government enter into a formal agreement with the bank respecting the control the bank is expected to apply to electronic funds transfer data for income assistance recipients.

4.34 The bank is provided with a list of Department staff authorized to communicate on behalf of the Department on banking matters. We found that the list is not current. Some individuals on the list have since retired. We advised the Department to update its authorized contact list.

## Information Technology Purchases

4.35 The objective of our audit of information technology purchases was to assess whether purchases are properly approved, accurately recorded and in compliance

with Provincial procurement and accounting policies. We concluded purchases are properly approved, accurately recorded and in compliance with the policies. We also noted an opportunity to improve the efficiency of the purchasing process.

4.36 Our audit work included an examination of fifty purchase transactions. Each of these transactions was properly approved and accurately recorded in accordance with government accounting policies. Forty-nine of the purchases tested (98%) were in compliance with the Provincial procurement policy. Three quotes were not obtained for one purchase, as required by the policy.

4.37 Our examination identified an opportunity to improve the efficiency of the purchasing process by reducing the number of approvals needed. We found there can be as many as seven levels of approval, including the Minister's authorization. Management indicated the current number of approvals adds considerable time to the purchasing process. Seven levels of approval may not be required for effective control over the information technology purchasing process.

**Recommendation 4.10**

**We recommend the Department examine its information technology purchase approval process and evaluate the necessity of having the current number of approvals.**

## CONCLUDING REMARKS

4.38 Our work on selected internal controls identified some very serious control weaknesses. These include inadequate access controls, inappropriate segregation of duties, ineffective bank reconciliation procedures and inadequate review and approval processes. Certain control weaknesses identified in this chapter pose a significant risk of financial loss or other negative consequences, either through fraudulent actions or error. We strongly encourage the Department to prioritize the control weaknesses identified in this chapter and address those which pose a significant risk as soon as possible.

## DEPARTMENT OF COMMUNITY SERVICES' RESPONSE

The Department appreciates the opportunity to respond to the findings of the Auditor General report on the "Information Technology and Financial Controls". The Department acknowledges the positive findings in the report, and will be implementing system control improvements in areas identified in the report.

While some control improvements are best left until the impending strategic implementation of the new Integrated Case Management (ICM) system, several control improvements are being considered in the meantime.

Thank you for your feedback.

# NOVA SCOTIA RESEARCH AND INNOVATION TRUST

OFFICE OF ECONOMIC DEVELOPMENT

## BACKGROUND

**5.1** The Nova Scotia Research and Innovation Trust (NSRIT) is a fund which was established by the Province to support Nova Scotia research by providing funds for research infrastructure. NSRIT was established March 29, 2001 by a Trust Agreement between the Province and Royal Trust Corporation (RTC). RTC was established as the Trustee and $15 million was deposited in the Fund.

**5.2** In 1997, the Government of Canada created the Canada Foundation for Innovation (CFI). CFI funds up to 40% of a project's infrastructure cost. Institutions must obtain remaining project funding from other government sources or the private sector. NSRIT provides Nova Scotia with a source of matching funds for CFI approved projects.

**5.3** NSRIT is managed by the Beneficiaries Committee (see Exhibit 5.2). This Committee consists of representatives from the various universities and colleges as well as three non-voting representatives from the Province (Office of Economic Development, Department of Education, Department of Finance). The Beneficiaries Committee oversees the Trust and awards funding to eligible projects. Funding recipients are researchers who work at one of the universities or colleges that comprise the Beneficiaries Committee. NSRIT is administered by the Council of Nova Scotia University Presidents (CONSUP), on behalf of the Office of Economic Development (OED). See Exhibit 5.1 for a summary of these relationships.

**5.4** On March 28, 2001, a Memorandum of Agreement (MOA) was signed between the Beneficiaries and the Province. The MOA states that all applicants for NSRIT funding must already have received CFI approval for the project and must include this approval with their application to NSRIT. NSRIT will match up to 40% of funding for CFI approved projects. Funding recipients must obtain the remaining 20% from other sources.

**5.5** The original Beneficiaries Committee also included two research organizations - Genome Atlantic and Life Sciences Development Association (LSDA). The Memorandum of Agreement included funding, not to exceed $3 million over the life of the Trust, for projects by Genome and LSDA which are not eligible for CFI funding. At the time of our audit, the maximum $3 million had been awarded. Genome Atlantic is still a member of the Beneficiaries Committee. LSDA is no longer in existence.

**5.6** As of August 2004, all monies in the Trust Fund, including interest earned, had been expended. During 2003-04, the Office of Economic Development provided $4.2 million directly to researchers for seven CFI approved projects. A Memorandum of Understanding between the Province and Nova Scotia

universities, signed July 2004 states "*The parties will review the mandate of the Nova Scotia Research and Innovation Trust Fund, and the government will make every effort to replenish the fund annually.*" During 2004-05 and 2005-06, an additional $18 million was provided to replenish the trust fund.

**5.7** OED has indicated that NSRIT funding has enabled Nova Scotia universities to compete for staff with larger institutions because facilities are now better equipped for research work. Research is also seen as an important economic development initiative. Since its inception, NSRIT has awarded $25.8 million in funding to 143 projects and OED has funded seven projects directly (see Exhibit 5.3).

## RESULTS IN BRIEF

**5.8** The following are our principal observations from this audit.

- We reviewed NSRIT's policies and procedures for funding approval and noted that NSRIT relies on CFI processes for application review and requires applicants to submit copies of their CFI application and approval. CFI's approval process was outside the scope of this assignment. We examined ten project files at NSRIT and found no problems with documentation.

- We reviewed NSRIT's monitoring of funding to research projects. There is no requirement for reporting of project status and outcomes to NSRIT. Recipients are not required to sign agreements with NSRIT regarding use of funds. We have made recommendations for improvements in accountability, including requiring funding recipients to sign agreements and annual project reporting.

- We assessed the Office of Economic Development's accountability structure with respect to NSRIT. OED does not have any requirement for periodic reporting from NSRIT regarding the success of NSRIT or achievement of project outcomes. We have recommended the establishment of annual reports and the provision of audited financial statements from NSRIT to OED to improve the accountability for Provincial funds provided through the Trust.

- Subsequent to the completion of our fieldwork, management at OED informed us that a new Memorandum of Agreement is being drafted between OED and the Beneficiaries. They indicated that this agreement will include ongoing monitoring of projects and reporting back to NSRIT and the Province regarding success of projects. Although this draft agreement was outside the scope of our audit, we understand it is expected to be signed in 2006-07 and we encourage the parties involved to move this forward as soon as possible.

- We assessed whether there was an adequate investment policy to ensure appropriate management of funds. We noted that NSRIT has no approved investment policy and recommended that one be established to ensure funds are invested appropriately.

## AUDIT SCOPE

**5.9** The objectives of this assignment were to:

- assess OED's accountability structure with respect to the Nova Scotia Research and Innovation Trust Fund and determine whether OED receives sufficient, appropriate information from NSRIT to allow OED to discharge its responsibilities with respect to the Trust Fund;

- assess Nova Scotia Research and Innovation Trust Fund's administration of the Trust Fund and accountability structure to determine:

  - adequacy of policies and procedures in place for approval of funding to recipients;
  - appropriateness of monitoring and reporting by recipients, while projects are in progress and upon completion, to allow NSRIT to ensure funds are expended based on the approved project guidelines; and
  - existence of an investment policy to ensure appropriate management of NSRIT's funds; and

- test a sample of research grants awarded by NSRIT to determine whether:

  - there is appropriate monitoring by NSRIT and reporting by recipients while funded research projects are in progress and upon completion;
  - NSRIT has evidence that funds were spent in accordance with approvals and signed agreements;
  - expenditures of grant funds are included in the university's financial management and control systems to ensure adequacy of financial controls; and
  - purchases under research projects follow appropriate procurement guidelines.

**5.10** Our approach was based on interviews, review of documentation and testing of a sample of approved projects. The CFI approval and monitoring process was not included in the scope of this assignment. Audit criteria were taken from recognized sources such as the Office of the Auditor General of Canada's *Financial Management Capability Model*, *Audits of Grant or Contribution Programs* and *A Framework for Identifying Risk in Grant and Contribution Programs*; Treasury Board of Canada Secretariat's *Policy on Transfer Payments*; Province of Nova Scotia's – *Government Procurement Process ASH Sector* as well as criteria which were internally developed by our Office for this assignment. Criteria were discussed with management at OED and NSRIT and accepted as appropriate for the engagement.

## PRINCIPAL FINDINGS

**5.11** We examined the application and approval process at NSRIT and concluded that NSRIT ensures only CFI approved projects are funded, and documents eligibility

of recipients. We also assessed monitoring of approved projects by NSRIT and reporting back to OED, concluded that additional work is required to ensure adequate accountability and made recommendations in this regard. Additionally, we tested ten approved projects. In all cases, research project expenditures were recorded in the institution's internal financial management system. We noted no problems with the selected project expenditures we examined.

## Application Process and Approval

**5.12** NSRIT funds CFI approved projects only (except for non-CFI projects as noted in paragraph 5.19 below). Once the beneficiary has received CFI approval, it can apply for NSRIT funding. Applicants are required to submit:

- a copy of the CFI application (which includes project budget, rationale, etc.);
- CFI approval letter; and
- confirmation of additional funding (CFI and NSRIT provide maximum of 40% each).

**5.13** The additional 20% funding originates from other sources and may include donations-in-kind such as discounts from the company providing the research equipment. NSRIT relies on the CFI application approval process for peer review of applications to ensure reasons for the research are adequately documented.

**5.14** The Beneficiaries Committee meets as needed to consider applications for funding. To date, all funding applications from CFI approved projects have received funding from NSRIT (with the exception of seven projects which were funded directly by OED). Once a project has been approved by the Committee, all NSRIT funds are paid in full since CFI requires proof of this payment before releasing CFI funding. There is no requirement for the beneficiary to sign an agreement with NSRIT regarding how the funds will be used or to report results to NSRIT. (See Recommendation 5.1 below.)

## Monitoring of Approved Projects

**5.15** The Memorandum of Agreement signed by the Beneficiaries and the Province does not include any provisions for monitoring progress of projects or reporting on results of completed research, or requirements for submission of audited statements from NSRIT to the Province. There are no reviews of project expenditures to ensure funds were used as intended. A review of CFI's website indicates that CFI requires annual reporting of project results as well as additional reports for five years after a project is completed. CFI also has the right to audit projects for which the Foundation has provided funding. At the time of our audit, NSRIT was relying on CFI's monitoring processes with no reporting of results from CFI to either NSRIT or the Province. Staff responsible for the administration of NSRIT informed us that although there is still no annual project reporting, NSRIT now asks recipients to provide copies of their CFI final project reports.

**5.16** Since NSRIT's inception, OED has funded seven projects directly at a time when the Trust did not have adequate funds to match CFI approved projects (see Exhibit

5.3). Although there were requirements for recipients to provide financial information and results reporting on completion of the projects, no reports were requested or received by OED.

**5.17** The Memorandum of Agreement includes a provision for the Beneficiaries Committee to file an annual report with the Department of Education (DOE) providing a brief description of projects funded including the amount of funding and the balance of the Trust Fund at year end. At the time of our audit, only one annual report had been filed. However, DOE's representative on the Committee indicated that DOE was satisfied with the information it was receiving through its membership and felt this provided necessary funding and project information. There is no reporting back to the Province regarding project outcomes and overall success of NSRIT.

**5.18** As of 2005-06, OED now has a line item in its budget for replenishing the NSRIT fund. Management at OED informed us that a new MOA is being drafted between OED and the Beneficiaries. They indicated that this agreement will include ongoing monitoring of projects and reporting back to NSRIT and the Province regarding success of projects. Although the draft agreement was outside the scope of our audit, we understand it is expected to be signed in 2006-07 and we encourage the parties involved to move this forward as soon as possible.

**Recommendation 5.1**

**We recommend that the Office of Economic Development ensure there is adequate accountability to NSRIT and the Province for project funding provided, whether the funds are disbursed by NSRIT or by OED directly. Improved accountability would be achieved by requiring funding recipients to sign agreements with specific requirements regarding use of funds, periodic reporting on project status at least annually, preparation of final project reports to show whether project outcomes were achieved, and review of project files by NSRIT or the Province to ensure compliance with the agreements. NSRIT should provide OED with annual audited financial statements for the Trust and annually report results of projects funded.**

## Non-CFI Projects

**5.19** The Memorandum of Agreement with the Beneficiaries provided for a maximum of $3 million in funding to two research groups in Nova Scotia – Genome Atlantic and Life Sciences Development Association (LSDA). These organizations were not eligible for funding from CFI. As a result, their applications would not have been subjected to the CFI peer review process which NSRIT relies on. The recipients were not required to provide any reporting on achievement of project outcomes or proof that funds were spent as intended. We conducted sample testing at Genome and LSDA and did not note any problems. LSDA has since been disbanded and the Life Sciences Research Institute – the project for which it received funding – has been taken over by Dalhousie University.

## Sample Testing

**5.20** We tested ten projects which had received funding from NSRIT or directly from OED. We reviewed documentation on file at NSRIT as well as project records maintained by the researcher. We did not note any problems with NSRIT's documentation. In all cases, the CFI application and approval were on file with NSRIT and approved funding was within the 40% maximum as established by the MOA.

**5.21** Of the ten projects selected, eight had incurred expenditures at the time of our site visits. We tested certain of those expenditures and found they were in accordance with the approved budget. In all cases, project expenditures went through the entity's regular financial management system and followed appropriate procurement guidelines. Two projects (totaling $527,580) had funds remaining at the end of the project ($2,633 and $722) which were returned to NSRIT. Since there is no ongoing monitoring and no requirement to show how funds were expended, NSRIT and the Province only became aware that these projects had funds remaining on completion when the beneficiary institution chose to return the unspent funds. Although the amounts in these cases were not large, they point to the need for final reporting, including proof of expenditures, so recipients can demonstrate all funds were used as intended.

**Recommendation 5.2**

We recommend that recipients be required to provide proof of project expenses to verify expenses were within NSRIT approved parameters and that all funds received were expended on that project.

## Investment Management

**5.22** Prior to project approvals, NSRIT's funds are invested with the fund manager. Management of the Trust's funds is left to the manager's discretion. There is no approved investment policy for the Trust and no monitoring of fund performance to ensure adequate returns on investment.

**Recommendation 5.3**

We recommend that NSRIT develop an investment policy to ensure appropriate management of NSRIT's funds.

## CONCLUDING REMARKS

**5.23** Since its inception, NSRIT has provided significant matching funds to allow Nova Scotia to take advantage of federal funding available for research projects. For ten

project files tested, NSRIT had maintained adequate supporting documentation for the applications. From those ten projects, we tested selected project expenditures. There were also no problems noted from that testing. In all cases, research project expenditures were recorded in the institution's internal financial management system.

**5.24** Improvements are required to ensure recipients are held accountable for funds received and provide regular reporting of appropriateness of expenditures and achievement of project outcomes. Management has informed us that a new Memorandum of Agreement with the Beneficiaries, which OED expects will be signed in early 2006-07, will address these concerns.

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Exhibit 5.1 **Nova Scotia Research and Innovation Trust - Key Parties**

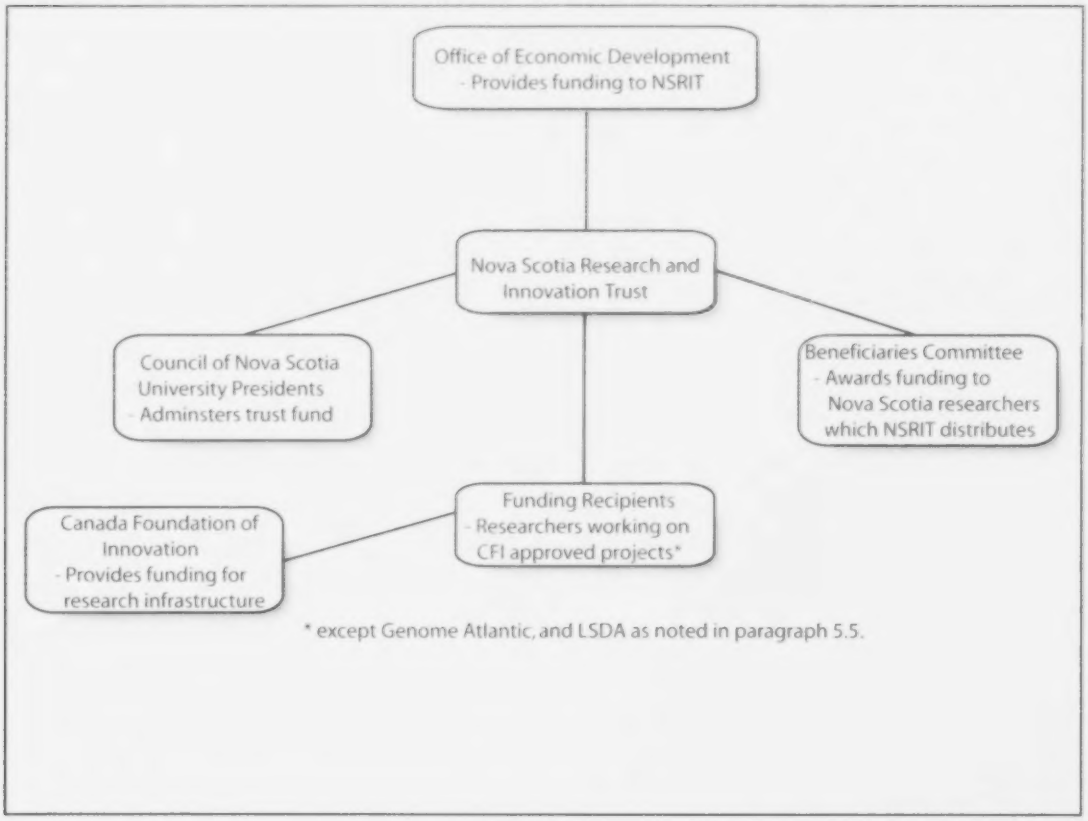

Office of Economic Development
- Provides funding to NSRIT
Nova Scotia Research and Innovation Trust
Council of Nova Scotia University Presidents
- Adminsters trust fund
Beneficiaries Committee
- Awards funding to Nova Scotia researchers which NSRIT distributes
Funding Recipients
- Researchers working on CFI approved projects*
Canada Foundation of Innovation
- Provides funding for research infrastructure
* except Genome Atlantic, and LSDA as noted in paragraph 5.5.

Exhibit 5.2 **Beneficiaries Committee Members**

| | |
|---|---|
| Acadia University | Atlantic School of Theology |
| Cape Breton University | Dalhousie University |
| Genome Atlantic | Mount Saint Vincent University |
| Nova Scotia Agricultural College | NSCAD University |
| Saint Mary's University | St. Francis Xavier University |
| Université Sainte-Anne | Nova Scotia Community College |
| University of King's College | |

Note: *Life Sciences Development Association* was a member of the original Beneficiaries Committee. The organization is no longer in existence.

## Nova Scotia Research and Innovation Trust-Funded Projects

Exhibit 5.3

| Beneficiary | Number of Projects | Amount |
|---|---|---|
| Dalhousie University | 83 | $14,124,679 |
| Mount Saint Vincent | 6 | 432,045 |
| N.S. Community College | 2 | 909,000 |
| St. Francis Xavier University | 9 | 835,456 |
| Saint Mary's University | 12 | 1,521,621 |
| Cape Breton University | 9 | 695,782 |
| N.S. Agricultural College | 8 | 3,148,387 |
| Acadia University | 7 | 891,416 |
| Life Sciences Development Association | 3 | 1,000,000 |
| Genome Atlantic | 4 | 2,268,000 |
| **Total** | 143 | $25,827,026 |

Note: *In addition to above projects, OED provided $4.2 million directly to researchers for seven CFI approved projects.*

## OFFICE OF ECONOMIC DEVELOPMENT'S RESPONSE

The Office of Economic Development acknowledges the need for more accountability and follow-up on the funding provided by the department to NSRIT and has already begun work on a new Memorandum of Agreement (MOA) which we expect will address many of the issues outlined in the audit. As noted in the report, OED has been working with the NSRIT and an advisory committee was struck in November 2005 to review and revise the MOA with the Beneficiaries. OED is working as part of this committee which includes Education and Finance to finalize the new MOA in a timely manner.

# 6 ATLANTIC PROVINCES SPECIAL EDUCATION AUTHORITY

## BACKGROUND

**6.1** This audit is the final phase of our examination of Special Education expenditures in the Province. We reported on the first two phases in Chapter 4 of our June 2005 Report. Those two phases consisted of audit work at the Department of Education and two Regional School Boards (RSBs).

**6.2** The Atlantic Provinces Special Education Authority (APSEA) is an inter-provincial co-operative agency established in 1975 by joint agreement among the Ministers of Education of New Brunswick, Newfoundland and Labrador, Nova Scotia, and Prince Edward Island. Legislative authority for the operation and administration of APSEA in Nova Scotia is derived from the Nova Scotia Handicapped Persons Education Act and Regulations.

**6.3** APSEA is governed by a 12-member Board of Directors, with three members from each province. The Deputy Minister of Education from each province is a permanent member of the Board. The two additional members from each province are appointed for two-year terms. The Superintendent is responsible for the management of APSEA.

**6.4** The philosophy of how to best support the educational needs of students with special needs has changed significantly since APSEA's creation in 1975. The provincial partners now promote an inclusive schooling model where services and programs for students with special needs are provided in a non-segregated setting in the students' community schools. This differs from the approach in 1975 when special education students with similar needs tended to be educated in segregated facilities.

**6.5** This philosophical change has resulted in the evolution of APSEA's service delivery model from one where teachers would be located at a segregated facility to the much more decentralized approach in place today.

**6.6** Programs and services offered by APSEA provide support for children and youths up to age 21, residing in Atlantic Canada, with low incidence sensory impairments. This includes children and youth who are deaf, deaf-blind or hard of hearing (DHH) and blind or visually impaired (BVI). The majority of students receiving APSEA services are registered with the school districts in the province of residence. The services provided by APSEA are in addition to the education services the students receive in their own schools. Services can also be provided to preschool children, and students enrolled in private and First Nations schools.

**6.7** Individual school districts have responsibility for the education of school age children. APSEA programs and services are designed to assist school districts in the

provision of adaptations required by students. These adaptations allow students with sensory impairments to be taught with their peers in community schools. Exhibit 6.1 provides a description of the types of services and programs provided by APSEA.

**6.8** The majority of services offered by APSEA are provided to students in their own communities by itinerant teachers. APSEA does not have full-time students. It does, however, offer various short-term programs ranging from two days to five months where students attend the APSEA Centre on a full-time basis. During the 2003-04 school year, 271 students were enrolled in short-term programs (see Exhibit 6.4).

**6.9** The APSEA Centre is located in Halifax and consists of two buildings. The school building houses the classrooms and the administration function. The second building includes both the residence and resource services.

**6.10** APSEA's total operating fund expenditures for the year ended March 31, 2005 were $16,018,732 (see Exhibit 6.3). APSEA receives operating funding from the four provincial partners. General operating costs are allocated to the provinces based on cost-sharing formulae included in the APSEA Agreement (see Exhibit 6.2 for 2004-05 allocation). Costs associated with provincial programs for BVI and DHH are 100% funded by each province based on the actual costs incurred by APSEA in providing the service in that province.

**6.11** APSEA holds trust funds which have been donated over many years and are internally restricted. Trust fund income is derived from interest earned on investments as well as donations and bequests. For the year ended March 31, 2005, the DHH trust funds earned investment income of $103,875 on investments with a book value of $1.5 million. For the same fiscal year, the BVI Trust funds earned $243,071 in interest income on investments with a book value of $6.1 million.

**6.12** Two Trust Fund Committees (BVI and DHH) are responsible for recommending how the various trusts are to be distributed using specific criteria. Management of the funds' investments is contracted to an external investment manager. The APSEA Board of Directors is the final authority for the administration of trust funds.

**6.13** In December 2004, consultants engaged by the Executive Committee issued a report on their review of the APSEA administrative structure. In response to that report, the Board initiated an internal review, termed the *Go Forward Process*, which focuses on delivery and support for services provided by APSEA. The internal review is scheduled to be completed in 2006.

**6.14** We examined documents which corroborate the high quality of services delivered by APSEA. For example, a consultant recently reported to the New Brunswick government that *"The quality of the services provided and the APSEA approach are now internationally renowned and many young people with visual or hearing impairments have benefited."* (*Connecting Care and Challenge: Tapping our Human Potential – Inclusive Education: A Review of Programming and Services in New Brunswick*, A. Wayne MacKay, January 2006, page 104).

## RESULTS IN BRIEF

**6.15** The following are the principal observations from this audit.

- The legislation governing APSEA in Nova Scotia is outdated and does not reflect current operations. In addition, it does not link to the provincial Special Education policies.

- The Board of Directors needs to improve certain aspects of its governance of APSEA.

- Information provided for both financial and performance reporting needs to be improved. Information systems need to be updated to provide the information required by management and Board members to fulfill their responsibilities.

- APSEA should expand its planning processes to include a long-term strategic plan and an annual business plan.

- The high quality of services offered by APSEA was noted by consultants reporting to APSEA and one of the participating provinces. APSEA is following its policies in assessing student eligibility for services, preparing service plans, and developing itinerant teacher caseloads and schedules.

- Itinerant teacher travel claims represent a significant expenditure for APSEA. The approval and monitoring process in this area should be improved.

- An appropriate level of information regarding the costs of program and service delivery is required to adequately assess the effectiveness and efficiency of programs and services. For example, the costs per student by service or program area are not being tracked. The lack of readily available information limits APSEA's ability to compare its operations to other models as well as monitor its own performance.

- APSEA needs to perform a detailed analysis of its current service delivery model, including comparison against alternative models, to ensure that programs and services are being delivered with due regard for economy and efficiency. An internal review is underway and is scheduled to be completed in 2006.

## AUDIT SCOPE

**6.16** The major objectives of our audit of APSEA were to:

- document and assess the accountability framework and related performance reporting within APSEA and externally to stakeholders;

- review and assess APSEA's Board governance function;

- review and asses adequacy of planning processes (strategic, operational and financial);

- determine whether adequate systems are in place to provide for internal financial reporting and monitoring;

- determine whether certain aspects of operations (allocation of resources, travel costs and space utilization) are being managed with due regard for economy and efficiency; and

- review and assess polices and procedures for determining eligibility and provision of services to students.

**6.17** Our audit field work was conducted at the APSEA Centre during the fall of 2005. Our audit procedures included interviews with management, surveys of board and committee members, review of relevant documentation, including assessments, and the testing of expenditures.

**6.18** As in the first two phases of the Special Education audit, we did not assess whether or not the services provided to the students were appropriate. We also did not attempt to assess whether itinerant teachers were actually providing the services to students as detailed in the APSEA service plans.

**6.19** Audit criteria were taken from recognized sources including the CICA Criteria of Control Board's *Guidance on Control*, the Office of the Auditor General of Canada's *Modernizing Accountability Practices in the Public Sector*, *Financial Management Capability Model*, and *Auditing of Efficiency*, CCAF-FCVI Inc.'s *Public Performance Reporting-Reporting Principles*, the Handbook of the Canadian Institute of Chartered Accountants, and APSEA publications and related regulations.

## PRINCIPAL FINDINGS

### Legislation

**6.20** As indicated in paragraph 6.2, Nova Scotia legislative authority for APSEA has been established through the Handicapped Persons' Education Act. This Act has not been updated in several years and does not reflect current operations at APSEA. For example, the Act indicates the existence of separate student resource centers for BVI and DHH although the Amherst site has been closed since 1995. The legislation also does not recognize the need for APSEA to comply with applicable Nova Scotia Special Education policies and procedures. The special education policies and guidelines of each province should be followed in the specific jurisdictions; and this requirement should be reflected in the inter-provincial agreement. Because this link is absent, there is no assurance that APSEA is following the policies and guidelines governing the delivery of special education in Nova Scotia or the other partner provinces.

**Recommendation 6.1**

**We recommend that the Nova Scotia Department of Education pursue changes to both the Handicapped Persons' Education Act and the related inter-provincial agreement to ensure they reflect current APSEA operations.**

## Accountability

**6.21** Roles and responsibilities of senior positions at APSEA are documented in policy manuals, legislation and/or teacher handbooks. These documents outline each position and list the overall duties that are expected of staff, Board and committee members.

**6.22** Accountability to each of the funding partners is accomplished in part through the participation of the Deputy Ministers of Education on APSEA's Board. The Deputy Ministers of each of the provinces form the Executive Committee of the Board.

**6.23** Responsibility for the overall management of APSEA resides with the Board-appointed APSEA Superintendent. In November 2005, a new Superintendent was appointed. The Superintendent is supported by four Directors; two have Provincial program responsibility (one each for BVI and DHH), one is responsible for Resource and Assessment, and one for Finance and Administration (see Exhibit 6.6).

**6.24** The Board has not established policies in certain critical areas such as conflict of interest and a code of conduct.

**6.25** Overall, roles and responsibilities are well documented and understood at APSEA.

## Governance

**6.26** Governance survey - As part of our audit, we sent governance surveys to all voting members of the Board of Directors as well as the members of the Trust Fund Committees. The objective of the survey was to obtain members' opinions on several critical dimensions of APSEA Board functions. The survey included several questions under the following five sections:

- Background Information
- Board Composition and Development
- Responsibilities and Accountabilities
- Board Structures and Processes
- Comments

**6.27** The Trust Fund Committee members all responded to the survey. Nine of the 12 Board members responded. We requested that any Board members who had served on the Board for less than one year return the survey without completing it; this was the case in one of the nine surveys returned. Responses from the surveys were summarized by our Office and used as audit evidence.

**6.28** Frequency of board meetings - Section 5 (1) of the Handicapped Persons' Education Act defines the role of the Board as "*the administration, management, general direction and control of the affairs of the Authority shall be vested in the Board of Directors consisting of 12 members.*" Section 15 of the Handicapped Persons' Education Regulations requires that the Board have regular monthly meetings although the Board Chair can formally decide that monthly meetings are not required. Based on our discussions with management and a review of Board minutes, meetings have been infrequent. For the 2004-05 fiscal year, there were only three Board meetings. Based on the results of the governance survey, seven of the eight respondents indicated that there were too few regular Board meetings.

**6.29** We understand, through discussions with APSEA management, that the busy schedules of Board members, especially the Deputy Ministers of Education, create a significant obstacle in arranging meeting times. We are concerned that infrequent meetings may jeopardize the Board's ability to effectively govern APSEA. For example, the 2004-05 financial statements had still not been approved by the Board nine months after year end. The 2004-05 and 2005-06 budgets were not approved until June 23, 2004 and May 4, 2005, respectively.

**Recommendation 6.2**

**We recommend that the APSEA Board improve its governance practices as follows:**

- **more frequent Board meetings; and**
- **cyclical review of policies to ensure they are current and include important areas such as conflict of interest and a code of conduct.**

**6.30** Performance of the Superintendent – Section 10 of the Handicapped Persons Education Regulations defines the role of APSEA's Superintendent as the Chief Executive Officer of the Board. As CEO, the Superintendent is responsible and accountable to the Board of Directors for the operation of all APSEA programs. Board members agree that this is a very important responsibility and seven of the eight survey respondents believe the Board should be evaluating the performance of the Superintendent.

**6.31** Based on our review of Board minutes and discussions with APSEA management, we concluded that no regular evaluation of the Superintendent has been taking place. No goals or performance targets have been established for use in assessing the Superintendent's performance. We believe it is essential for the Board to evaluate the Superintendent's performance annually.

**Recommendation 6.3**

**We recommend that the Board establish an annual performance evaluation process for the Superintendent which includes an assessment of performance against Board-approved performance targets and goals.**

**6.32** In November 2005 a new Superintendent was hired by APSEA. A personal services contract was signed in February 2006 between APSEA and the Superintendent which includes provision for an annual performance appraisal to be performed by the Board on or before the anniversary date of the contract. Inclusion of the performance appraisal provision in the contract is a good first step, but the Board still needs to implement a process. We also believe that employment contracts should always be in place prior to the first day of employment.

**6.33** Setting strategic directions and goals – APSEA Board members, in responses to our survey, indicated that setting strategic direction and goals and monitoring the achievement of goals and objectives are very important responsibilities of the Board.

**6.34** Management and the Board at APSEA prepared a planning document including five goals for the organization (see Exhibit 6.5). This document includes measures, actions, and progress to date. The date on the document is January 2003 and the status of progress was updated in January 2005. The original goals and objectives and the status update were both provided to the Board. Although this document lists some goals for APSEA, it does not provide a clear strategic direction for the future of APSEA.

**6.35** Results from the governance survey indicate that some Board members are unclear as to whether a Board-approved strategic plan exists for APSEA. Members were asked whether they agreed with the following statement, "*APSEA has a formal strategic plan which has been approved by the board.*" Of the eight respondents, three disagreed, one was not sure, and four agreed with the statement.

**6.36** APSEA is currently in the process of conducting an extensive internal review of its organization, termed the *Go Forward Process*, which is expected to be completed in 2006. The Board of Directors directed the provincial Student Services Directors and APSEA Program Directors to conduct the review. The scope of the review is quite broad and may lead to significant changes in the way APSEA delivers its programs and services. The review includes the following objectives:

1. "*To ensure the educational outcomes for students are clearly identified and monitored such that students will achieve to their full potential;*
2. *To ensure all four provincial partners are well served by APSEA in coordination with associated provincial services;*
3. *To improve the administrative, financial and governance structures of APSEA;*
4. *To identify an accountability framework to ensure ongoing assessments of educational outcomes, client services and operational efficiencies.*"

**Recommendation 6.4**

We recommend that the Board update the strategic plan for APSEA.

**6.37** Board planning and self-evaluation – In addition to evaluating the performance of the organization being governed, it is important that board members establish a process to plan and evaluate their own performance annually. It is also important that an orientation session be provided for new board members so that they have a sound understanding of the organization being governed. While there is an information package sent to new members of the APSEA Board, it does not appear that there is a comprehensive orientation for new Board members.

**6.38** Advisory committees - The Board is supported by two Advisory Committees (Programs and Finance) comprised of the respective Program and Finance Directors employed by the Departments of Education of the funding partners. The role of the Advisory Committees is documented in APSEA's policy manual, and includes providing advice to the Board in the areas of program and service delivery and financial management. Members of the Advisory Committees are not always members of the Board.

**6.39** Through discussions with members of the Financial Advisory Committee (FAC), we concluded that there is some inconsistency between the role defined in APSEA policy manuals and the actual role being performed by FAC. Members indicated that their primary contact is with APSEA management through the Director of Finance and that they have limited direct communication with the Board as a whole. The FAC members are also accountable to their respective Provincial Deputy Ministers, who serve on the Executive Committee and the Board.

**6.40** The current FAC role appears to have evolved into providing advice to APSEA management and individual Deputy Ministers as opposed to the Board as a whole. The current role of the Committee compromises its effectiveness as an advisory body for the Board.

**Recommendation 6.5**

We recommend that the role and responsibilities of the Financial Advisory Committee be reviewed and clarified.

**6.41** Governance of trust funds – As indicated in paragraph 6.11, there are trust funds for children who are blind or visually impaired as well as for children who are deaf, deaf-blind, or hard of hearing.

**6.42** In the survey responses, members indicated that there is a clear mission for each trust and that performance targets have been set. In addition, the majority of members understand their roles and responsibilities and accountabilities. The

members were also asked about their satisfaction with the information they receive about the trust funds. Some members indicated they would like additional financial information to help assess the return received on fund assets.

**6.43** The APSEA Board and Trust Fund Committee members should be accountable to donors for stewardship of the donated funds. One committee member raised concerns about the makeup of the committee (majority is APSEA staff) and about potential erosion of the fund principal because the rate of return on investments has not been sufficient to cover planned trust fund expenditures. Prior to the last few years, annual income had been sufficient to offset expenditures and preserve principal. The APSEA Board currently has the power to make the final decisions regarding the use of the trust funds and APSEA staff form the majority of the Trust Fund Committee. The APSEA Board should formally consider the current Trust Fund governance structure to determine whether alternate governance arrangements would improve the accountability to donors.

**Recommendation 6.6**

**We recommend Trust Fund Committee members assess their information needs and obtain the required information from management. The APSEA Board should formally consider the current Trust Fund governance structure to determine whether alternate governance arrangements would improve the accountability to donors.**

## Performance Reporting

**6.44** APSEA external reporting - Currently, there is no mechanism in place for APSEA to table its financial statements or annual reports to the Nova Scotia House of Assembly. Reporting to the provincial funding partners is limited to the information obtained by the Deputy Ministers as members of APSEA's Board. Reporting relationships should be formalized to strengthen accountability.

**Recommendation 6.7**

**We recommend that APSEA's legislation be modified to include a requirement to report annually to the House of Assembly.**

**6.45** APSEA Directors' reports to the Board – Directors prepare monthly reports of activity for their responsibility areas which are provided to the Board prior to regular meetings. In addition, an annual report is prepared for the Board which summarizes the monthly activity for all program and service areas offered by APSEA.

**6.46** As part of our audit procedures, we examined sample copies of both the monthly and annual reports provided to the Board. Although there is a considerable amount of information provided, we believe that it is of limited value in

assessing APSEA's organizational performance. The focus of the information is on operational outputs such as the number of students receiving a particular service in a specific month or year. For example, the reports generally do not compare APSEA's performance against predetermined performance targets or measures. The reports do not contain statistical information on enrollments or wait lists. This information would be important for Board members when determining the *strategic direction for APSEA and assessing organizational performance. Recently,* the Board has received reports related to achievement of individual outcomes for a sample of BVI students. We believe this information is a key measure of success for APSEA.

**6.47** As part of our governance survey we asked Board members whether they agreed that *"The information provided was sufficient to allow an evaluation of how well APSEA has performed."* Of the eight who responded, six were not sure and two disagreed. Board members need to document and communicate their information needs to management so that relevant and meaningful information is received.

**Recommendation 6.8**

**We recommend that APSEA management and the Board develop performance indicators and measures which include student outcomes, and establish an annual process for reporting progress.**

**6.48** APSEA internal performance reporting – Typical information reported to Program Directors by itinerant teachers includes case loads and schedules, as well as copies of APSEA service plans for each student and student progress reports. Additional information is also provided to Directors on an ad hoc basis as requested.

**6.49** For BVI, we noted that provincial supervisors began a process of reporting on a sample of students' progress in meeting the outcomes detailed in individual service plans. For example, the report identified the number of outcomes met, those which were not met, and included possible explanations. These explanations appeared to be very useful in isolating areas where APSEA staff should concentrate their efforts. Although we realize that this reporting model is under development and needs to be refined, we believe that this type of approach to reporting on performance is a best practice and should be adopted in other areas of APSEA's operations.

**Recommendation 6.9**

**We recommend that the BVI program model for reporting student outcomes, currently under development, be adopted where appropriate in other areas of APSEA operations.**

**6.50** APSEA reports to school districts – APSEA staff regularly report on individual student performance to the school districts. Itinerant teachers are members of the

school-based program planning teams where student performance is regularly monitored. Also, reports are prepared for students attending short-term programs as well as twice per academic year for those students receiving regular itinerant services.

**6.51** Student information system – Currently APSEA has a student information system known as ZIM. The system is used to track detailed information on students receiving services from APSEA. Based on our discussions with users of the system, the information is frequently inaccurate which limits its usefulness. Various factors contribute to ZIM's inadequacies including system deficiencies and delays in data entry. Also, it appears that the system is not very flexible with respect to the reports that it can produce. APSEA management has indicated it plans to address the system weaknesses in the near future.

**Recommendation 6.10**

**We recommend that management address the weaknesses in the student information system to ensure that requirements of users are met.**

## Planning and Budgeting

**6.52** Annual business plan - APSEA does not prepare an annual business plan. However, the goals and objectives document provides high level descriptions of actions required and expected timelines. This document should be used as the foundation for the annual business plan. There should also be a more detailed operational plan including actions required, specific timelines, resources and reporting requirements. The Nova Scotia Department of Education requires all Regional School Boards to submit annual business plans using the template provided. This template may be useful to APSEA in preparing its own business plan for approval by the Board.

**Recommendation 6.11**

**We recommend that APSEA management prepare an annual business plan for approval by the Board.**

**6.53** Budgeting - As noted in Exhibit 6.3, in the 2004-05 fiscal year salaries represented 83% of APSEA's expenditures. The preparation of the annual budget focuses on the estimate of the salary expense for the year. The Director of Finance receives staffing requirements from the BVI and DHH Directors and calculates the salary budgets using wage levels included in the various union agreements. The submissions also include estimates of numbers of students and level of service expected. Once salary budget requirements are known, amounts for other areas including equipment, professional development, and maintenance are determined by the Director of Finance through trend analysis and discussions with staff.

**6.54** The Financial Advisory Committee (FAC) reviews and challenges the budget prepared by the Director of Finance. FAC members also communicate budget issues to their provincial members on the Board. Once FAC completes its review, FAC recommends the budget to the Board for final approval.

**6.55** We reviewed detailed support for APSEA's 2005-06 budget, including budget submissions, and interviewed certain APSEA staff. We noted that in some cases the staffing requirements in the budget submissions were different than the final approved staffing levels in the budget. Although there was no formal documentation reconciling the differences, management provided us with explanations supporting the final budget amounts.

**6.56** We noted that support for some significant budget line items such as building maintenance is not well documented. There does not appear to be any planning document which supports how the building maintenance budget is going to be spent. In addition, key assumptions and other calculations supporting non-salary budget line items are not well documented. Communication of key assumptions and planning documents is required to ensure that Board members fully understand the basis on which the budget has been developed.

**Recommendation 6.12**

**We recommend that APSEA management submit written support for all key budget assumptions and line items to the Board as part of the budget package.**

## Financial Reporting and Monitoring

**6.57** Financial reporting to the Board – Financial reporting to the Board consists primarily of the annual budget and audited financial statements. In addition, financial information is provided where there is potential for significant impact on APSEA operations, such as when Newfoundland and Labrador decided to reduce its annual funding to APSEA in 2004-05.

**6.58** The results of the governance survey indicate that most Board members are not satisfied with the type of information that they are receiving from APSEA. There is confusion as to how the financial information provided links to the goals, objectives and operational plans. Also, Board members desire additional information with respect to the cost of various service delivery models as well as individual programs and services.

**6.59** Monthly variance analysis - APSEA's policies and procedures require production of monthly financial reports which detail expenditures for the month and year-to-date, commitments, free balances, and explanations of budget variances. These reports are to be made available to APSEA management as well as the Board. Through our discussions with management, we noted that the formal financial reporting detailed in the APSEA policies and procedures manuals is not taking place, with the exception of regular reporting on travel expenditures.

**6.60** APSEA's Director of Finance monitors actual expenditures against the budget throughout the year. Where required, the Director of Finance will investigate, through informal communication with staff, explanations for significant variances. Overall, management indicated that it was satisfied with the level of financial information being provided. Where required, management requests specific financial information from the Director of Finance.

**6.61** Itinerant teacher travel claims - Itinerant teachers are required to travel throughout the provinces in order to provide APSEA services. Consequently, travel expenditures represent a significant cost for APSEA. See Exhibit 6.7 for a summary of the kilometers traveled by itinerant teachers in 2004-05. Note that the vast majority of APSEA's itinerant teachers travel between 5,000 and 25,000 kilometers annually.

**6.62** Itinerant teachers are reimbursed for travel expenses based on the Province of Nova Scotia's travel policy. Claims for reimbursement are to be submitted by teachers monthly and approved for payment by the Program Directors. Claims submitted are assessed for compliance against the travel policy and in certain cases kilometers claimed are compared to the teacher's schedule and approved caseload for reasonableness. The Program Directors also receive a monthly report of expenses claimed by each of their staff members.

**6.63** We examined a sample of individual travel claims for compliance with the travel policy. We found no cases of non-compliance.

**6.64** In addition to the detailed testing of travel claims, we analyzed itinerant teacher travel over a one-year period and obtained explanations from management for any anomalies noted. As a result of this analysis, we found one situation where the number of kilometers claimed was inconsistent with the geographical location of the students on the teacher's caseload. Management indicated that they would be investigating further and recovering the amount of any overpayment. The teacher had been paid $6,821 for 21,055 kilometers traveled during the 2004-05 academic year.

**6.65** Although Program Directors currently approve itinerant teacher travel claims for payment, Provincial Supervisors have more intimate knowledge of specific teacher travel requirements and should be involved in the assessment of the reasonableness of travel claims. Also, reviewing teachers' travel claims on an annual basis and comparing kilometers traveled to schedules and caseloads would be an effective control to ensure that claims paid are reasonable. Itinerant teacher travel is a significant expense for APSEA and improvements in the payment and monitoring process currently in place are required.

**Recommendation 6.13**

**We recommend that Provincial Supervisors approve itinerant teacher travel claims and that a process be established to assess the reasonableness of claims paid.**

**6.66** Program and service delivery costs - To adequately assess the effectiveness and efficiency of programs and services, an appropriate level of information regarding the costs of program and service delivery is required. Currently at APSEA, such information is not being reported either to staff or Board members. For example, costs per student by service or program area are not being tracked. The lack of readily available information limits APSEA's ability to compare its operations to other models as well as monitor its own performance.

**6.67** APSEA's total expenses for 2003-04 were $15,741,320 as reported in its audited financial statements. During that year, APSEA served 1,749 students (from Exhibit 6.4) leading to a basic cost per student of $9,000 for APSEA services. We acknowledge that this is a simplistic analysis and that there would be a wide range of costs for services provided to individual students depending on the assessment of needs.

**6.68** Management information system - The current accounting program that is used at APSEA is not sufficient to meet its information needs. Many of the required reports have to be prepared manually. The Director of Finance has stated that APSEA is in the process of investigating the purchase of a new system. APSEA has also hired a new staff member to focus on administrative information technology requirements. It is important that, as part of the process to acquire a new management information system, APSEA staff and the Board determine their information requirements and incorporate these in the assessment of potential new systems.

**Recommendation 6.14**

**We recommend that APSEA determine its financial and operational information needs and ensure appropriate systems are put in place to meet those needs.**

## Eligibility for Services, Service Plans and Teacher Caseloads

**6.69** Student eligibility - APSEA has established criteria to determine students' eligibility for service and these are documented in its policy manuals for both BVI and DHH. Students potentially requiring services are identified by the school teams which contact APSEA for assessment. The initial assessment is performed by an itinerant teacher. If the criteria for receiving services have been met, an additional assessment by the Provincial Supervisor is performed to determine the level of service to be provided. In cases where the appropriate level of service required is difficult to determine, the student is brought to the APSEA Centre for more in depth review by APSEA assessment specialists.

**6.70** We tested a total sample of 25 BVI and DHH student files to assess whether students met APSEA's criteria for receiving services. We found no instances of non-compliance with established criteria.

**6.71** APSEA service plans - Once the student's level of service has been determined, the student is assigned to an itinerant teacher who prepares an APSEA service plan. Included in the service plans are the frequency and description of the service to be provided, goals and outcomes, appropriate approvals and reporting requirements. We reviewed the service plans for the 25 students mentioned in paragraph 6.70 for compliance with APSEA policy requirements. We found no instances of non-compliance with the policy.

**6.72** Itinerant teacher caseloads and schedules – Creating itinerant teacher caseloads and schedules can be difficult. The geographical location of the students, length of session, and the availability of the student are some of the factors that must be considered. Schedules are created so itinerant teachers meet with students during "non-core" curriculum classes. In addition, caseloads and schedules must comply with the teachers' collective bargaining agreements. For these reasons, APSEA has indicated that establishing a set formula to determine how itinerant teacher caseloads and schedules are set is not practical. General guidelines exist for the BVI program, although ultimately caseloads and schedules are based on the professional judgement of management.

**6.73** Caseloads and schedules are reviewed and approved by the Provincial Supervisors with copies provided to Program Directors. We reviewed the caseloads and schedules of 20 itinerant teachers in both the DHH and BVI programs and assessed them against the general guidelines established for the BVI program. For those teachers whose caseloads appeared to be inconsistent with the general guidelines, we obtained reasonable explanations from management.

**6.74** There are currently no students waiting for itinerant teacher service from APSEA. When a child has been identified as requiring service, he/she is immediately assigned an itinerant teacher. The provincial supervisors adjust the case loads of the itinerant teachers in order to accommodate these new students. There are no student wait lists for assessment at the Centre.

**6.75** Students are sometimes referred to short-term programs but may be unable to attend in the year of referral. Cancellations by students account for most of the BVI wait list. However, DHH management has indicated that the majority of the wait list in those programs is due to staff shortages and lack of available space. APSEA tracks referrals to programs and students who do not receive service in the year of referral will eventually receive the desired courses in upcoming sessions.

**6.76** The number of students requiring BVI and DHH services varies with changes in the incidence of these medical conditions. Teachers specialize in working with either BVI or DHH students. Therefore, maintaining the optimum number of teachers for the nature of services required by the current student population is a challenge.

## Due Regard for Economy and Efficiency

**6.77** Current service delivery model - The philosophy of how to best support the

educational needs of students with special needs has changed significantly since APSEA's creation in 1975. The provincial partners now promote an inclusive schooling model. Services and programs for all students with special needs are provided in the community schools, where the students reside, in a non-segregated setting. This differs from the approach in 1975 when special education students with similar needs tended to be educated in segregated facilities.

**6.78** This philosophical change has resulted in the evolution of APSEA's service delivery model from one where teachers would be located at a segregated facility attended by students to the much more decentralized approach in place today. The various options for service delivery have cost implications. Residential schools were costly. The current service delivery model, although less costly than residential schools, provides a high level of service to eligible students but also has a high cost per student. We acknowledge that there are real challenges in providing services to a low incidence, widely-dispersed student population with high needs. However, we believe that the high costs warrant detailed analysis of possible alternative delivery models. In the following paragraphs, we give examples of the costs associated with the current delivery model.

**6.79** Costs per student – In 2003-04 APSEA reported total operational costs of approximately $15.7 million. For the same year APSEA provided services and programs to 1,749 students. This equates to a per student cost of approximately $9,000. We acknowledge that there would be a wide range of actual costs per student depending on the nature and frequency of services provided. However, this average serves to illustrate the magnitude of the costs. These students would also attend regular classes in their home school district; the APSEA costs represent additional service. Consider that, in Nova Scotia, the RSBs receive about $5,563 per student through regular formula funding and an additional $320 for all students to be used for Special Education.

**6.80** We noted that the approximate cost of $9,000 per student quoted above is in the same range as the funding provided by the Manitoba government for eligible students with severe hearing loss which has affected language development or vision impairment requiring extensive adaptations to print medium. APSEA has recently received a report indicating that the funding in Manitoba would be $8,565 per eligible student in such cases with additional funding provided for those with profound needs (*Background Research on Program and Service Delivery Models for Children and Youth who are Blind or Visually Impaired, Deaf or Hard of Hearing, Deafblind*, May 2006, page 15).

**6.81** Cost of itinerant teacher travel - Provincial Supervisors indicated that schedules are set with a goal of maximizing the number of hours teachers spend with students each day. Exhibit 6.8 provides a breakdown of a typical weekly schedule for an itinerant teacher based on a 7-hour day (note that the regular school day is a minimum of 5 hours teaching time according to Regulations under the Education Act). This exhibit shows that during the week, the teacher spent 16.25 hours or 46% of the 35-hour week directly with students (65% if based on a 25-hour teaching week). APSEA has a recommended maximum caseload of 20 hours per

week. Our sample teacher's caseload of 16.25 hours represents 81% of APSEA's maximum. APSEA indicates that the itinerant teacher's opportunity for time with students is limited by the students' schools and grade levels. Travel time was 8.67 hours or 25% of the 35-hour week. The average APSEA teacher's salary for the 2004-05 fiscal year was $65,622. We estimate the cost of a typical teacher's travel time to be approximately 25% of the annual salary or $16,406.

**6.82** Exhibit 6.7 provides the distribution of kilometers traveled by itinerant teachers in 2004-05. The majority of itinerant teachers travel between 5,000 and 25,000 kilometers per year. The teacher discussed in paragraph 6.81 above traveled approximately 15,000 kilometers during the year.

**6.83** APSEA Centre space utilization - The APSEA Centre was designed to provide full-time academic services and residence facilities to students. Currently, DHH and BVI students use the APSEA Center only for short-term programs. The APSEA Board engaged a firm of architects to conduct a space utilization study to address some of the concerns reported in the management review of the organization (see paragraph 6.13). The consulting architect issued a report on May 11, 2006 which has been provided to the Board for review. The following extract from the consultant's review is typical of the observations and conclusions.

> *"The deployment of facilities at APSEA Centre appears to be a direct reflection of the APSEA operational mode. While there are inevitably opportunities for improved space efficiency in most organizations, it is unlikely that dramatic changes in space utilization can be achieved at the APSEA Centre in the absence of significant changes to an operational model that is held in high esteem." (Space Utilization Study for the APSEA Centre, Final Report,* Barrie and Langille Architects Ltd., May 11, 2006, page 10)

**6.84** The residence and Resource Services building has six floors. The Resource and Assessment branch of APSEA occupies the first two floors. This includes office space, assessment rooms and libraries. The cafeteria is also on the first floor. One floor of the residence is rented to the IWK Health Center. Another floor is residence strictly for students who are attending short-term programs. The remaining two floors contain apartments that are rented to staff and are available for visiting staff and families of students when necessary. There are also two apartments available for students learning to live independently.

**6.85** The rate charged to the IWK Health Center was $150,000 for the 2005-06 school year. The rate was discussed and approved by APSEA's Board and was determined through studies of costs per square foot in that area of the city as well as through discussions with Nova Scotia's Department of Transportation and Public Works.

**6.86** The rental rate charged to staff for the apartments had not been increased in the past ten years. The current rental rates are $550 per month and $250 per month depending on the apartment. Management has indicated that tenants have been notified of increases of 12% on September 1, 2006 and 8% on September 1, 2007. In the future, annual increases based on cost of living increases are planned.

6.87 Academic services are provided in classrooms within the main school building. This building also includes a small gymnasium, a therapeutic swimming pool and a music area. These facilities are used in short-term programs and also available to students staying in the residence after school hours.

6.88 We reviewed the usage of the facility for a four-week period. We compared the residence schedule to the number of available beds on the one floor designated for students attending short-term programs. We found that an average of 14 to 15 students stayed in residence each week utilizing 48% of the 30 available beds during our observation period. There are factors that reduce the number of beds that can be assigned below the 30 available. Staff must consider the gender of students, medical needs and privacy requirements as well as age.

6.89 We then compared the individual students' schedules against the 10 available academic classrooms and found that those rooms were utilized an average of 32% of the available time for instruction of students. When there were no classes in session, those rooms were often used for other purposes such as office time and consultations. The total number of students enrolled in short-term programs over the four weeks was 51, with an average of 17 students attending each week.

6.90 Exhibit 6.9 shows the utilization of the entire residence and Resource Services building. APSEA uses the majority of the building for its operations (39%) consisting mainly of the resources and assessment department and libraries. Apartments rented to staff and or used by visiting staff are another major use of the residence building (23%). Exhibit 6.9 also shows that the 48% occupancy rate for student beds on the one designated floor (from paragraph 6.88) equates to 8% of the entire residence building.

6.91 APSEA's service delivery model has evolved over time. It has elements of both a segregated, centralized model (e.g., short-term programs) and an inclusive, decentralized model (e.g., itinerant teachers). In order to ensure that due regard for economy and efficiency is achieved, APSEA needs to identify and analyze alternative delivery models. We understand that the internal review which is currently being conducted may include such an analysis.

**Recommendation 6.15**

We recommend that APSEA conduct a detailed review of its existing service delivery model to examine opportunities for cost savings and more efficient allocation of resources.

## CONCLUDING REMARKS

6.92 The services and programs provided by APSEA are known to be of high quality. The model being used to delivery the service is expensive in comparison to

programs delivered by regional school boards as discussed in paragraph 6.79 above. At this time, there is limited information available to compare the BVI and DHH programs of APSEA with similar programs in other jurisdictions but APSEA has begun to collect some of this information through the *Go Forward* review and related research. A comprehensive analysis of alternative options for service delivery is required to ensure that due regard for economy and efficiency is being achieved.

**6.93** We acknowledge that the Board has initiated an internal review which may ultimately address some of the recommendations included in our Report.

Exhibit 6.1 **Summary of Programs and Services offered by APSEA**

**CORE PROGRAMS AND SERVICES**

**Preschool Services**
A preschool program is designed to provide home-based programs for children prior to school entrance. Services are intended to focus on the child's individual needs and to assist parents/ guardians in learning how to teach their child.

**Itinerant Teacher Direct Services**
Direct service is provided to DHH and BVI students with a focus of providing instruction in disability-specific skills. This service is provided in the student's school and includes regular weekly visits usually lasting one hour per day.

**Itinerant Teacher Consultative Services**
Consultative services include the provision of technical support in the care and use of a student's disability specific equipment and technology. In-services and consultative service is also provided to school district personnel.

**Short-Term Residential Programs**
Focus on the mastery of specific skills or addresses specific learning or behavioral difficulties which are difficult to incorporate into an integrated setting.
Students stay in the residence at the Center and the time can vary in length to a maximum of one semester.

**Assessment Support**
The DHH & BVI assessment teams are made up of a variety of professionals who specialize in the evaluation of the skills of students with low incidence sensory impairments. Assessments range in length from 1.5 days to 4 days.

**SUPPORT SERVICES**

**Amplification and Technical Support**
Maintain hearing aids and FM hearing aid systems for students. Also provides technical computer support to itinerant teachers.

**Consultation for Educational Assistant/Interpreters**
Provide in-services and support to school districts on the Educational Assistant and Interpreter services.

**Consultant for Students who have Multi-needs**
Assesses the student and the school environment, reports on student progress, and collaborates with student's program planning team.

**Auditory/Verbal Therapist**
Provides individual assessments and structured programming in auditory skills development, as well as collaborates with student's program planning team.

**Family/Student Counselor (BVI and DHH)**
Visits schools and home settings to assist students, teachers and parents deal with behavioral disorders and cultural isolation.

**Orientation and Mobility: assessment, consultation and direct service**
Teaches students in the BVI program how to safely be mobile in their environment.

**Transition Planning**
Establishes future goals with students and parents and advocates for adaptations and modifications to post secondary programs to meet individual needs.

**Resource Room Teacher Services**
Provides support for students whose current linguistic and communicative needs require intensive intervention.

**Resource Services Team (library services, Braille services, technologists)**
Include library services, Braille services, and technologists.

*Source: APSEA website http:www.apsea.ca*

Exhibit 6.2

## Atlantic Provinces Special Education Authority
## Schedule of Continuity of Amounts Owing to Provinces
## For the Fiscal Year ended March 31, 2005

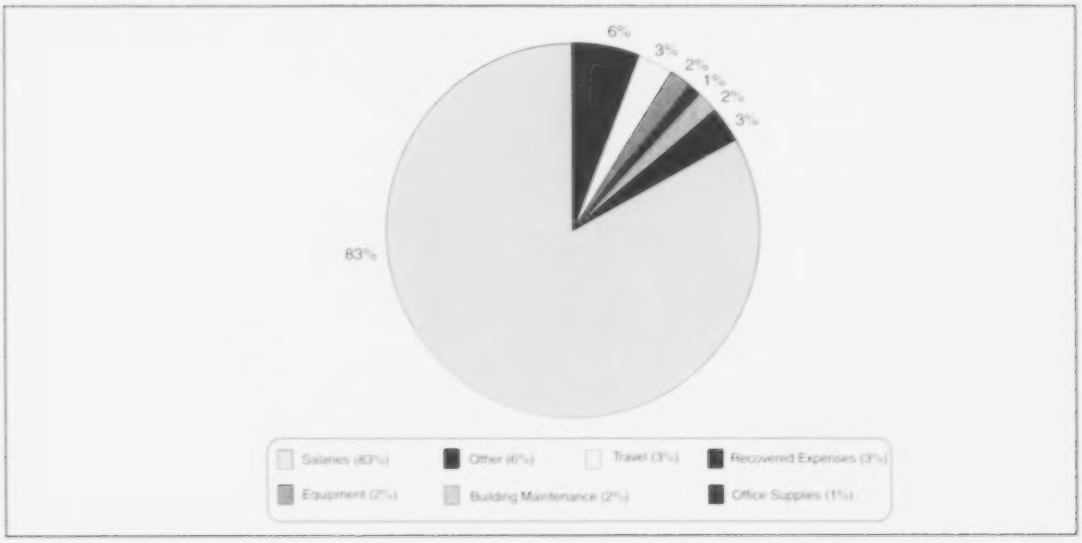
| | Nova Scotia | New Brunswick | Newfoundland and Labrador | Prince Edward Island | Total 2005 |
|---|---|---|---|---|---|
| Balance, beginning of year | $ 25,379 | $ 194,898 | $ 3,005 | $ 264,650 | $ 487,932 |
| Add: Payments received | 8,490,300 | 5,512,740 | 559,000 | 593,911 | 15,155,951 |
| Deduct: Distribution of total expenditures | | | | | |
| Administration and consultation (4 provinces) | 628,398 | 504,935 | 356,145 | 93,389 | 1,582,867 |
| Administration and consultation (3 provinces) | 227,132 | 182,770 | - | 33,715 | 443,617 |
| Assessment services | 385,901 | 220,718 | 59,808 | 45,568 | 711,995 |
| Centre based programs | 1,581,799 | 641,673 | 109,433 | 154,200 | 2,487,105 |
| Provincial programs | 5,369,236 | 3,947,067 | - | 403,500 | 9,719,803 |
| Transportation - DHH | - | - | - | - | - |
| Early retirement incentive program | - | 33,379 | 10,570 | 7,288 | 51,237 |
| Depreciation | 8,601 | 3,493 | 595 | 838 | 13,527 |
| Total expenditures | 8,201,067 | 5,534,035 | 536,551 | 738,498 | 15,010,151 |
| Balance, end of year | $ 314,612 | $ 173,603 | $ 25,454 | $ 120,063 | $ 633,732 |

Note: The expenditure amounts shown are net of revenues which total $1,008,581. Gross expenditures total $16,018,732.

*Source: APSEA's audited financial statements for the year ended March 31, 2005.*

## 2004-2005 Operating Fund Expenditures by Type

Exhibit 6.3




Notes: (1) Total APSEA operating expenditures per the 2004-05 audited financial statements were $16,018,732.

(2) Other - Some of the expenses included in this category are amortization, conveyance, catering costs, library operations, etc.

Source: APSEA's 2004-05 financial records.

## Exhibit 6.4 Statistical Information on APSEA's Operations 2003-2004

Preschool Services

| | NS | NB | PEI | N/L | Total |
|---|---|---|---|---|---|
| DHH | 45 | 34 | 0 | 0 | 79 |
| BVI | 60 | 38 | 6 | 13 | 117 |
| Total | 105 | 72 | 6 | 13 | 196 |

Students served by Itinerant Teachers

| | NS | NB | PEI | N/L | Total |
|---|---|---|---|---|---|
| DHH | 572 | 360 | 0 | 0 | 932 |
| BVI | 249 | 193 | 32 | 147 | 621 |
| Total | 821 | 553 | 32 | 147 | 1,553 |

Total Children served by APSEA

| | NS | NB | PEI | N/L | Total |
|---|---|---|---|---|---|
| Preschool | 105 | 72 | 6 | 13 | 196 |
| Served by Itinerant Teachers | 821 | 553 | 32 | 147 | 1,553 |
| Total | 926 | 625 | 38 | 160 | 1,749 |

Itinerant Teachers

| | NS | NB | PEI | N/L | Total |
|---|---|---|---|---|---|
| DHH | 26 | 20 | 0 | 0 | 46 |
| BVI | 19 | 13 | 4 | 0 | 36 |
| Total | 45 | 33 | 4 | 0 | 82 |

Transition Planning Services

| | NS | NB | PEI | N/L | Total |
|---|---|---|---|---|---|
| DHH | 59 | 51 | 0 | 0 | 110 |
| BVI | 74 | 56 | 14 | 0 | 144 |
| Total | 133 | 107 | 14 | 0 | 254 |

Assessments

| | Referred | NS | NB | PEI | N/L | Total assessed |
|---|---|---|---|---|---|---|
| DHH | 53 | 21 | 26 | 2 | 0 | 49 |
| BVI | 51 | 26 | 9 | 2 | 1 | 38 |
| Total | 104 | 47 | 35 | 4 | 1 | 87 |

Short-Term Programs

| | Referrals by Province | | | | Total Referrals | Total Enrolled |
|---|---|---|---|---|---|---|
| | NS | NB | PEI | N/L | | |
| DHH | 117 | 72 | 8 | 0 | 197 | 97 |
| BVI | 122 | 87 | 26 | 9 | 244 | 174 |
| Total | 239 | 159 | 34 | 9 | 441 | 271 |

*Source: APSEA's 2003-04 Annual Report*

## APSEA's Goals

Exhibit 6.5

1. Recognizing on going curricula and rapid advances in technology, APSEA will improve timely access to alternate format material to enhance the learning of students who are blind or visually impaired by June 30, 2005.

2. APSEA will promote participation in research relevant to best practices for education programming and service delivery target for students with sensory loss.

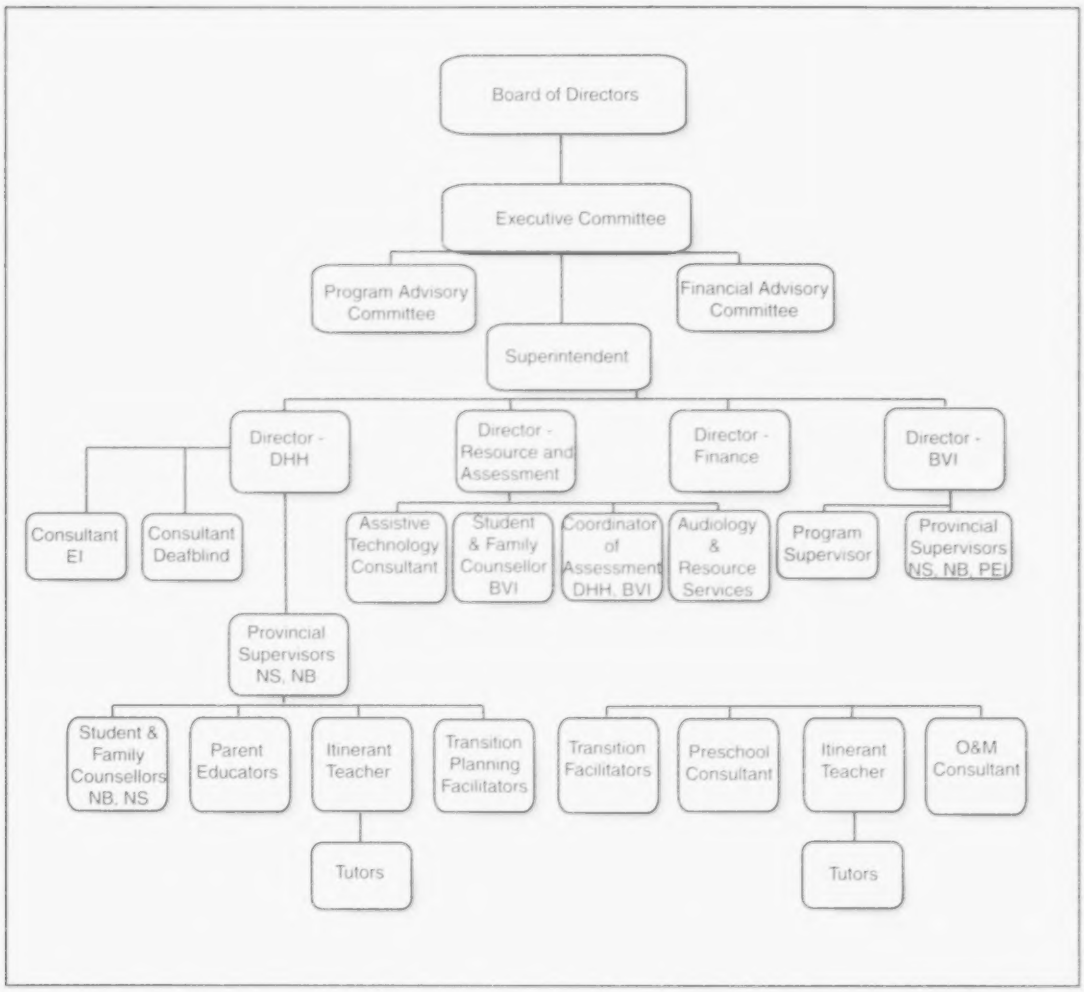
3. To support the maintenance of expertise and appropriate level of services, APSEA will develop a preliminary human resources/ succession plan outlining the projected staff and expertise needed over the next five years.

4. Recognizing the importance of APSEA services to the future success of students who are blind or visually impaired, deaf blind, deaf or hard of hearing, APSEA will, by 2006, develop a process to evaluate student achievement in the relevant disability skill area.

5. To inform decision making, develop and conduct an environmental scan/ needs assessment to determine to what extent APSEA is meeting its mandate and proposed future directions by 2006.

*Source: APSEA strategic plan, titled "APSEA Goals and Objectives", dated January 2003*

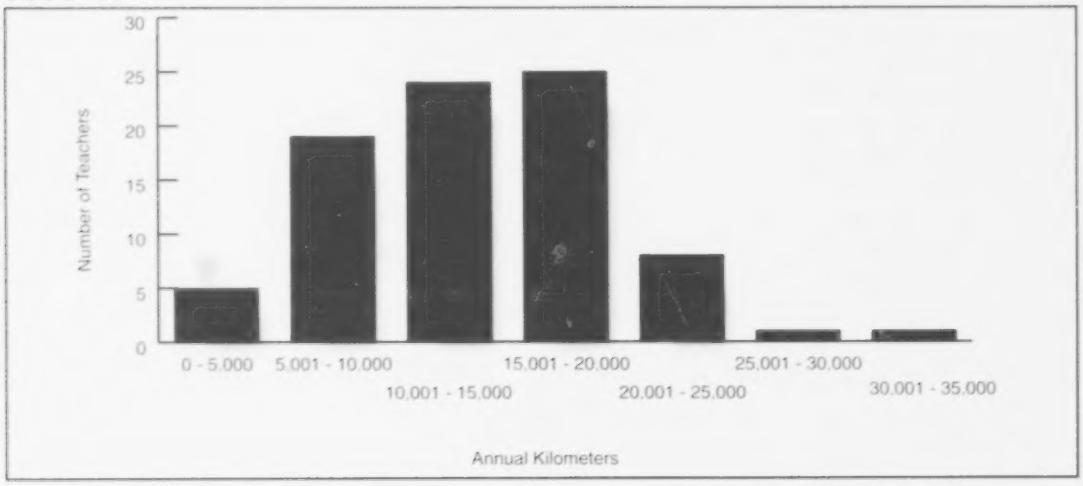
## Exhibit 6.6 APSEA Organizational Chart




*Source: Information provided by APSEA*

## Range of Annual Kilometers Traveled by Individual Itinerant Teachers 2004-05

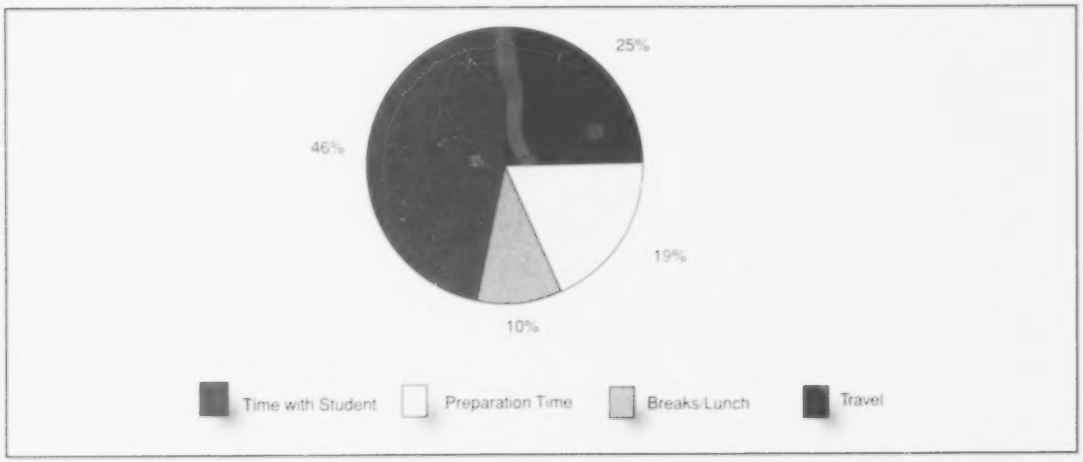
Exhibit 6.7




*Source: APSEA*

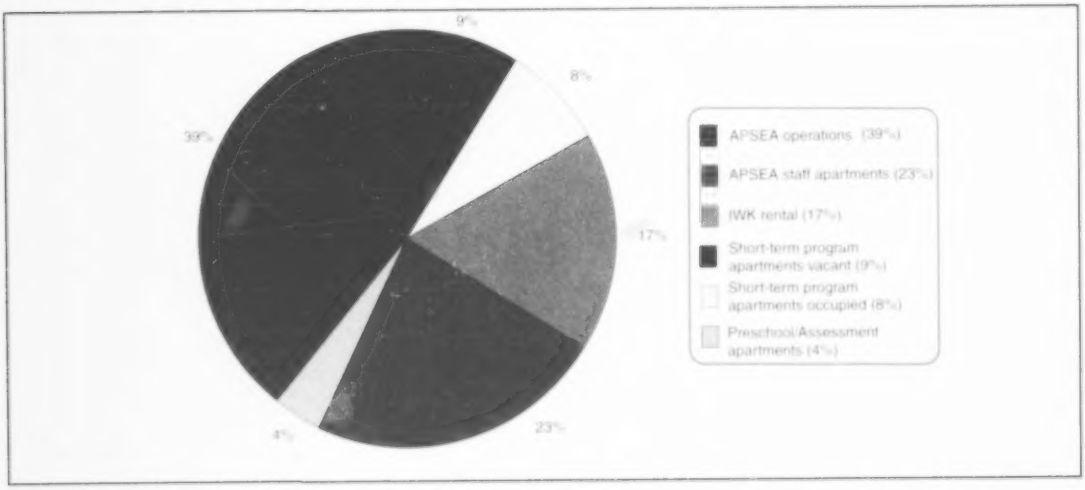
## Breakdown of Typical Itinerant Teacher Week (based on 35 hour week)

Exhibit 6.8




*Source: Weekly schedule submitted by an itinerant teacher to APSEA management*

Exhibit 6.9 **Space Utilization of APSEA Residence and Resource Services Building**




*Source: APSEA documents*

## ATLANTIC PROVINCES SPECIAL EDUCATION AUTHORITY'S RESPONSE

Thank you for the opportunity to comment on the reported results of the broad-scope audit of the Atlantic Provinces Special Education Authority. We appreciate both the endorsement of our current operations and the recommendations for improvement. This first broad scope audit of APSEA by the Auditor General provides an external perspective and assessment of our policies and practices.

A number of the recommendations in the report have already been addressed. Others will form an integral part of APSEA's strategic planning process. We acknowledge the importance of strengthening accountability through improving efficiency and effectiveness.

The professionalism of the team who conducted the audit made the process a positive experience for APSEA.

# 7 CONSEIL SCOLAIRE ACADIEN PROVINCIAL

## BACKGROUND

7.1 The Conseil scolaire acadien provincial (CSAP) was created in 1996 to meet the needs of the Acadian and francophone population of Nova Scotia. Prior to its creation, students had attended schools that were governed by a conseil d'école or District School Boards. CSAP has responsibility to provide French first-language programming in Nova Scotia which is guaranteed under Section 23 Minority Language Educational Rights of the Canadian Charter of Rights and Freedoms (Charter).

7.2 CSAP was created under the Education Act which uses language consistent with the Charter when describing minority language rights and entitlement. Sections 11 to 16 of the Act apply directly to CSAP and discuss areas such as governance. Section 3 of the Act defines a school board as a district school board, a regional school board or the Conseil scolaire acadien. A major difference between the Conseil scolaire acadien and the other school boards is the scope of its operations. CSAP offers programs throughout the Province rather than just in one region. Section 16 of the Education Act also confers the following additional responsibilities to CSAP which the Regional School Boards do not have:

> *"The Conseil acadien shall*
>
> *(a) promote and distribute information about the French-first-language program;*
>
> *(b) include in its learning materials information about the Acadian culture; and*
>
> *(c) in providing its educational programs, engage in activities that promote Acadian culture and the French language."*

7.3 The Education Act establishes the accountability relationship between the Department of Education (DOE) and the school boards. A school board is *"accountable to the Minister and responsible for the control and management of public schools within its jurisdiction."*

7.4 The CSAP governing body (Conseil) consists of 17 elected members who represent nine geographical districts. The Conseil has six standing committees. The current Conseil was elected in October 2004 for a term of four years.

7.5 The Conseil is responsible for nineteen schools throughout the Province which are organized into three administrative regions (see Exhibit 7.1). The Act provided for the Executive Council to designate schools, previously administered by other governing bodies, to CSAP. The administrative staff is located in three regional offices; south west (Meteghan River), central (Dartmouth) and north east (Petit-de-Grat). The Conseil's head office is also located in Meteghan River.

7.6 The Superintendent is accountable to the Conseil and is given responsibility for enforcing policies approved by the Conseil. The Superintendent is supported by seven senior management positions. In addition to the three Directors of Finance, Operations, and Human Resources, there are three Regional Directors (see Exhibit 7.2) with responsibilities for geographic regions, providing support to principals, and providing support for specific programs to all CSAP schools. A Director of Programs and Student Services position is approved for the period while CSAP implements a pilot project on curriculum development.

7.7 For the 2005-06 school year, CSAP recorded an increase of .6% in school enrolments over 2004-05 to 4,158 students. At CSAP's creation in 1996, enrolments were reported at 3,907. This growth rate (6.5%) is not typical of the overall public school system in Nova Scotia, which has experienced a decrease of 13,421 students (or 8.2%) in its enrolments between 1995-96 and 2002-03.

7.8 CSAP's operating budget for 2005-2006 was $34.9 million. It was based on operating 19 schools and employing 309 teachers (full-time equivalents). DOE provided $32.8 million (94%) of its total funding and the Government of Canada and municipalities provided $1.3 million (4%).

7.9 CSAP incurred an operating deficit of $93,000 during the 2004-05 fiscal year and had an accumulated deficit of $515,000 at March 31, 2005. On March 28, 2006, the Department of Education provided funding of $502,000 which should essentially eliminate the accumulated deficit.

7.10 The Department of Education engaged a consultant, William D. Hogg, CA, for two separate engagements related to school board funding. His first report, *Nova Scotia Regional School Boards Funding Formula Framework*, was released in December 2004. He was later engaged to specifically examine CSAP's mandated responsibilities and cost implications. He reported to the Department of Education in December 2005.

7.11 We have not conducted any previous audits of CSAP. Chapter 8 of this Report describes our recent audit of the Strait Regional School Board which had similar objectives.

## RESULTS IN BRIEF

7.12 The following are our principal observations from this audit.

- Our audit indicated that CSAP is well governed. We have made a few recommendations to strengthen certain aspects of operations and governance.
- CSAP complies with applicable reporting requirements of the Education Act and Regulations.
- CSAP's financial statement auditors issued a qualified audit opinion on the March 2005 financial statements due to their inability to audit school-based

funds which were reported to total $757,238. This situation was similar to most other school boards in the Province. CSAP's audit opinion for 2005-06 will likely be qualified again since there has been no improvement in the controls over these funds. Our review of controls over school-based funds at two schools indicated that there are weaknesses. Each CSAP school has its own policies for control of school-based funds; there is no common policy. Management indicated that the inconsistency arose because the policies originated with predecessor school boards. The Conseil should establish a consistent policy for its schools and ensure that it is enforced.

- In 2003-04, school-based funds were reported missing at one CSAP school. CSAP took appropriate action and reported the matter to the RCMP. The missing amount was estimated to be approximately $12,000. This incident illustrates the risk associated with weaknesses in controls over school-based funds.

- CSAP incurred deficits in the past. The accumulated deficit was $515,000 as at March 31, 2005. The Department of Education provided funding of $502,000 in March 2006 to eliminate the accumulated deficit.

- CSAP's mandate is different from other school boards because it serves a minority and has legislated responsibilities related to the Acadian and francophone culture. Section 16 of the Education Act gives CSAP additional responsibilities including promotion of the Acadian culture and French language. The Province has not explicitly provided additional funding, as a separate budget line item, for this aspect of the mandate.

- There are currently two separate student transportation systems, one for CSAP and one for the Regional School Board, in each region of the Province. There is generally no sharing of transportation arrangements among boards, although there are three separate arrangements affecting a total of approximately 550 students where CSAP students are transported by Regional School Boards or vice versa. The Department of Education has not formally analyzed the cost impact of two separate systems.

## AUDIT SCOPE

**7.13** The major objectives of our audit were to:

- review and assess CSAP's compliance with its policies and certain aspects of the Education Act and Regulations focusing on general responsibilities of School Boards and accountability to the Department of Education;

- review and assess appropriateness of information provided to the Conseil by management and the external auditor to fulfill its stewardship responsibilities;

- review and assess CSAP's process for acquiring contracted transportation,

achieving due regard for economy and efficiency, and monitoring compliance with contracts and legislation;

- review and assess financial transactions for 2004-05 to obtain explanations for any identified anomalies, and to test a sample of transactions for compliance with CSAP policies; and

- to gain an understanding of the services which CSAP shares with other RSBs and organizations.

**7.14** Our audit criteria were obtained from recognized sources and have been accepted by the Conseil as being appropriate.

**7.15** Our audit field work was conducted at CSAP during the winter of 2006. Our audit procedures included interviews with management, review of relevant documentation, and testing of expenditures. We visited two schools to review controls over school-based funds.

**7.16** Our audit included only certain aspects of student transportation. CSAP's student transportation throughout most of the Province is provided by a contracted third-party service provider. The exception is the south west region where transportation services are provided by CSAP employees. Approximately 60% of CSAP's transportation costs relate to contracted transportation. We included only contracted transportation in our audit. We did not examine the delivery of transportation services in the south west region or compare the costs of transportation provided in that region with services acquired under the contract in other regions.

## PRINCIPAL FINDINGS

### Background

**7.17** Cultural mandate - The Education Act includes a cultural mandate for CSAP which is in addition to the mandate provided to all school boards in the Province. Section 16 indicates that

> *"The Conseil acadien shall:*
>
> *(a) promote and distribute information about the French-first-language program;*
>
> *(b) include in its learning materials information about the Acadian culture; and*
>
> *(c) in providing its educational programs, engage in activities that promote Acadian culture and the French language."*

**7.18** Students eligible for services from CSAP are children of entitled parents. As per the Act, entitled parent means

*"a parent who is a citizen of Canada and*

*i) whose first language learned and still understood is French,*

*ii) who received his or her primary school instruction in Canada in a French- first-language program, or*

*iii) of whom any child has received or is receiving primary or secondary school instruction in Canada in a French-first language program"*

**7.19** CSAP incurs costs related to its cultural mandate but they are not separately tracked. William D. Hogg, in his *Nova Scotia Regional School Boards Funding Formula Framework* report issued to the Minister of Education in December 2004 (see paragraph 7.10 above), stated *"There are a number of factors that are unique to CSAP. However, the two primary factors are their province wide responsibilities and the cultural aspect of their programming. . . . While these factors are unique, the associated additional cost factors are difficult to quantify."* (page 93)

**7.20** Federal funding - CSAP receives federal funding for certain programs. For 2003-04, the audited financial statements show that 4.1% ($1.26 million of $31.4 million) of CSAP's funding was from the Federal government. This compares with 1.3% ($11.21 million of $901.7 million) for all Regional School Boards. This funding is targeted for specific programs and initiatives and not for general operations.

**7.21** Accumulated deficit - CSAP incurred an operating deficit of $92,000 during the 2004-05 fiscal year and had an accumulated deficit of $515,000 at March 31, 2005. On March 28, 2006, the Department of Education provided funding of $502,000 which should essentially eliminate the accumulated deficit.

**7.22** During 2005, as noted in paragraph 7.10 above, the Department of Education engaged a consultant to examine the cost implications of CSAP's French first-language programs and the impact on CSAP of proposed changes to the funding formula for school boards. William D. Hogg reported to the Department of Education in December 2005, prior to the Department's decision to fund the accumulated deficit.

## Board Governance

**7.23** Conseil meetings - The Conseil had eleven meetings in 2005 and nine meetings in 2004. More than half of those were two-day meetings over the weekend. Because the members live in a wide geographic area, the meetings are held at various locations around the Province.

**7.24** Conseil meeting minutes indicated that meetings are well attended and the vast majority of motions are passed unanimously. Absences are infrequent and reasons are documented when absences occur.

**7.25** The Conseil meets regularly "in camera" as permitted in Section 59(3) of the Education Act. These meetings are held to discuss personnel issues, individual

students and other confidential matters. Minutes are taken for in camera meetings and any decisions recommended are brought to the regular Conseil meeting for approval.

**7.26** Annual evaluation of the Superintendent – The draft personal services contract for the new Superintendent includes a section relating to annual evaluation of performance. The evaluation is to consider achievement of the goals and objectives established by the Conseil and directives of the Minister of Education.

**7.27** CSAP is participating on a committee that will change the process for evaluation of all school board superintendents in the Province. Through the Nova Scotia School Boards Association (NSSBA), the Conseil, all the Regional School Boards and the DOE are working on a standardized process for the evaluation of superintendents. This is especially important now that the superintendents are paid according to a uniform grid. A request for proposals was issued to find consulting firms to assist the NSSBA. Responses have been evaluated and a firm was recommended. The consultants were to meet with the superintendents and Board chairs in May 2006 to discuss the process. Documents show that the evaluation process will focus on performance against identified outcomes.

**7.28** Annual evaluation of Conseil performance - The Conseil has a policy which requires review of its own performance. The Chairperson indicated this is done informally at most meetings but the discussions are not documented in the minutes.

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**Recommendation 7.1**

**We recommend the Conseil implement a formal, documented process for self evaluation.**

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**7.29** Payments to Conseil members - The amounts to be paid to Conseil members as stipends are set by Regulation. Expense claims by Conseil members are to comply with CSAP policies. We examined the audited annual report of school board salaries and expenses submitted by CSAP to DOE and tested both types of payments to members. We found no unusual or unsupported payments.

## Business Planning and Performance Reporting

**7.30** Strategic plan – CSAP's strategic plan covered the period to 2003 and a new one is not yet in place. The Conseil has started work on a new strategic plan. The new plan is being developed in-house and is expected to be completed later in 2006. It will be for the period from 2006 to 2010.

**7.31** Business plan – The Department of Education requires all school boards to file annual business plans. CSAP prepares an annual business plan using a template provided by the Department of Education. The plan identifies the goals and priorities for the upcoming year and reports achievements against the goals of the previous year.

**7.32** Reporting to the Conseil - The Conseil receives many different reports and presentations relating to its operations. These reports are submitted on a regular basis through the Superintendent and committees. Although there are no regular progress reports which deal specifically with the status of business plan initiatives, we identified links to the business plan priorities during our review of a sample of reports.

## Approval and Monitoring of Annual Budget

**7.33** Budget approval - The Conseil plays an active role in approval and challenge of the budget. The Conseil sets aside special meetings to deal with the budget and is provided with any information it requests. The Conseil is informed of the budget assumptions, challenges the contents of draft documents, and requests changes where appropriate.

**7.34** The 2005-06 budget was officially approved by the Conseil on July 13, 2005 and submitted to DOE according to legislated timelines.

**7.35** Financial monitoring - The Director of Finance reports CSAP's financial results for the year to each Conseil meeting. A comparison of actual results to the budget is presented and members have the opportunity to ask questions. When the school year starts, financial forecasts to year end are prepared and submitted to the Conseil on a regular basis. The Conseil has an active Finance Committee that reviews financial information and recommends it to the Conseil for approval and submission to DOE where required.

**7.36** Through review of Conseil and Committee minutes and discussions with senior management we concluded that, except for the school-based funds information referred to in paragraph 7.45 below, there is appropriate financial reporting to the Conseil.

## Compliance with Education Act and Regulations

**7.37** Reporting to the Department of Education - Overall, we found that CSAP submitted required reports to DOE as per legislation with one exception; the 2005-06 Business Plan was submitted after the deadline.

**7.38** Board management pay scales and contracts - As per Section 64 (3C) of the Education Act

> *"A school board shall establish a compensation framework for senior staff, as defined in the regulations, of the school board in accordance with the compensation framework established by the Minister in the regulations."*

**7.39** Of the three senior staff required to have personal services contracts, two are working without final, approved contracts. One of the contracts is waiting for DOE approval and the staff member has been without a contract for ten months. The second management employee is working under a draft contract. There has

not been approval from the employee, CSAP or DOE. The employee has been in this position for eight months. CSAP and the Department of Education indicated that this is only an issue for new employees when negotiation and approval of final contract details may require significant time. When CSAP employees are promoted, they are not paid the new salary until the contract has been finalized and approved.

**Recommendation 7.2**

**We recommend that CSAP and DOE ensure signed, approved personal services contracts are in place before the employee begins work in the position.**

**7.40** We compared the salaries being paid to senior management against the approved DOE salary grids. We found CSAP to be in compliance.

**7.41** Commercial activity - The Education Act indicates that a school board is not to engage in commercial activity without the approval of Executive Council. The Department of Education wrote to all school boards in 2002 indicating that commercial activity included *"all activities being (or anticipated to be) conducted in the present fiscal year for which gross revenue is generated for the board, including community use of schools activities"* and asking for a report of relevant activities. CSAP did not respond to the request. The Department of Education accumulated a list of commercial activities at the other school boards in 2002 but did not request Executive Council approval. We found that CSAP is involved in community center rentals and small initiatives such as rental of day care space.

**Recommendation 7.3 (same as Recommendation 8.4)**

**We recommend that the Department of Education seek Executive Council approval for school board commercial activities as required under Section 64 (A) of the Education Act.**

**7.42** Audit Committee - CSAP has an active, functioning Audit Committee that meets the requirements of the Education Act. The committee meets as required and membership is appropriate. The committee's mandate had included both audit and finance but DOE recently instructed the Conseil to separate the two roles and a separate Finance Committee was established. The terms of reference need to be updated to reflect the committee's current mandate since they include both finance and audit. The chairperson of the Conseil is also the chair of both the Finance and Audit Committees. This is not a common practice; in most organizations, such significant responsibilities are spread among various board members. There were a few meetings where minutes had not been prepared, but there was a formal report presented to the Conseil meeting which provided evidence that the committee had met and information on topics discussed. Minutes were prepared for the most recent meeting.

## School-Based Funds

**7.43** School-based funds are received through student fundraising and school-related events. These funds are managed by the individual schools where they are collected and are the responsibility of the schools' principals. Total value at CSAP schools as at March 31, 2005 was reported to be $757, 238. The majority of the schools had balances between $20,000 and $40,000. Three schools of the 19 had balances over $100,000. Four schools were under $10,000.

**7.44** The Department of Education and generally accepted accounting principles require that school boards' audited financial statements include the ending balances for school-based funds and activity in those accounts during the year. The Department of Education's requirement became effective for the 2004-05 fiscal year. CSAP's financial statement auditors issued a qualified audit opinion for the March 2005 financial statements due to their inability to audit the activity in the funds because detailed records were not available to the auditors. This situation was similar to other school boards. CSAP's audit opinion for 2005-06 will likely be qualified again since there has been no improvement in the controls over these funds.

**7.45** The schools are currently following the policies and procedures that were in place when they were part of the District School Boards before the creation of CSAP. Each school has a different policy which leads to a lack of consistency in administration and reporting of school-based funds. There is no monitoring of this area by central office except for the requirement for schools to submit a list of bank balances at year end. CSAP is planning to acquire computer software for its schools but it will need to be available in French and user-friendly. CSAP indicated that it will establish a policy for all its schools.

**7.46** We visited two schools to review policies and procedures followed. We found some internal controls at both schools but there were many weakness identified; for example,

- Cash receipts are not regularly issued at one school.
- Bank reconciliations were not properly prepared at one school.
- Blank cheques had been pre-signed at one school.
- Total control of the bank account and accounting records was vested in a single person at one school.

**7.47** We concluded that the Conseil should develop standard policies and implement a monitoring system to reduce risk associated with the custody of school-based funds.

**7.48** In 2003-04, CSAP identified a suspected fraud by an employee at one of its schools involving school-based funds. CSAP took appropriate action and reported the

matter to the RCMP. The suspect is no longer employed by CSAP. An estimated $12,000 went missing over four years. This incident illustrates the risk associated with weaknesses in controls over school-based funds.

**Recommendation 7.4**

**We recommend that CSAP establish a policy for school-based funds which applies to all schools. This policy should include requirements for appropriate internal controls and monitoring by CSAP's central office.**

## Student Transportation System

**7.49** Background - There are 4,158 students attending CSAP schools, of which approximately 97% are transported to school by CSAP. Transportation expenditures in 2004-05 totaled $3.7 million. Of this amount, 60% was paid to contracted transportation providers. Students in the south west region of Nova Scotia are not transported by contractors; CSAP has its own school bus fleet in that region. CSAP is bound by a collective agreement that does not allow transportation in the south west region to be contracted out. For this audit, we focused on contracted transportation services. The majority of students are transported on buses provided under contract from an external service provider which accounts for 46% of the $3.7 million in transportation expenditures. Contracts with taxi companies for transportation of some of the remaining students account for 14%. The remaining transportation costs relate to transportation by CSAP's fleet of school buses. See Exhibit 7.3.

**7.50** CSAP has a student transportation policy. It includes a maximum duration for student transportation of one hour and provision for bussing of all students who reside more than 1.6 kilometers from school. It also includes provision for courtesy bussing of students within the 1.6 kilometer limit. Section 6.1 of the Governor in Council Regulations under the Education Act requires that all students over 3.6 kilometers from school be transported. Department of Education officials informed us that this is the minimum distance and that school boards can develop their own transportation policy based on circumstances. The school boards do not have consistent standards for when transportation is provided.

**7.51** Separate transportation system - Transportation of CSAP students in areas other than Halifax Regional Municipality and Clare-Argyle had been the responsibility of other school boards. Over time, CSAP was able to contract a third party to deliver transportation services in some areas. In 2004, CSAP formally asked for control of its transportation in the north east region and DOE transferred the related funding from a Regional School Board to CSAP. CSAP engaged a consultant to review its transportation issues and the report was provided to DOE. The consultant issued a report in November 2003 which included the following recommendations:

> *"It is recommended that:*
> - *CSAP assume exclusive responsibility for the provision of pupil transportation of all*

*Acadien and francophone students enrolled in all its schools.*

- *The Department of Education initiate and carry out a process to assign the appropriate number of school buses to the appropriate boards. (A staff transition plan would be required).*
- *If additional school buses are required, the Department of Education provides the additional funding.*
- *The Department of Education revise the baseline funding for CSAP to reflect the number of buses operated by the board."* (*Report on Pupil Transportation Services - Conseil scolaire acadien provincial*, Douglas E. Nauss, November 2003)

**7.52** There are now two separate transportation systems in each region of the Province, one for CSAP and one for the Regional School Board, with minor exceptions in three areas. There are arrangements between CSAP and three Regional School Boards (Chignecto-Central, Annapolis Valley and Tri-County) which involve a total of approximately 550 students. In one area, CSAP transports 459 students of another RSB and, in two others, a total of 91 CSAP students are transported by other RSBs.

**7.53** A separate transportation system is important to CSAP and parents of CSAP students. The Conseil gave us the following reasons for its position.

- The Conseil believes that students have the right to a French environment from the moment they are on the bus.
- It is safer for French speaking students to have a French bus driver.
- When CSAP transportation was the responsibility of other school boards, the priority of the other board was its own students which led to long bus rides for CSAP students.

**7.54** We understand that CSAP management received information from the contracted transportation provider indicating that only 60% of the contracted drivers are able to speak French. Therefore, it appears CSAP's language needs in this area are not being fully met.

**7.55** Contract with the service provider - CSAP tendered its requirement for transportation services. Each Regional School Board was given the opportunity to bid for its region, though none did. We examined the process to choose the contracted service provider and found that it was in compliance with the Nova Scotia Government Procurement Policy.

**7.56** The contract states that the contractor must comply with the applicable legislation and regulations. Specifically, it must operate within CSAP's transportation policy and regulations, the N.S. Motor Carrier Act, the N.S. Education Act, and relevant regulations with regard to the conveyance of pupils. This contract has been approved by both parties as well as DOE.

**7.57** The contractor is responsible for all aspects of transportation in the specified regions. Responsibility for ownership of the buses, maintenance, fuel, drivers, and

insurance rests with the contractor. The price is a fixed daily rate per bus regardless of the distance driven. The contracted service provider also subcontracts CSAP's taxi requirements in those cases where it is not feasible to provide bus service. The contract does not discuss the criteria or the option of subcontracting with taxi companies.

**7.58** In 2005-06, the average cost of transporting students under the service provider contract was $1,061 per student (weighted average of bus and taxi students). Exhibit 7.4 shows that the contracted transportation cost for each region ranges between $117,000 and $ 1,253,000. CSAP schools within the Halifax Regional Municipality (HRM) account for approximately 50% of the contracted expenses and 30% of total transportation costs. See Exhibit 7.5 for the average annual cost per student in each region. The annual per student cost ranges from approximately $668 to $ 6,238. Transportation by taxi is more expensive than bussing on a per student basis, but may be the most economic option for certain students as discussed in paragraph 7.61.

**7.59** In 2005-06 there were approximately 160 students transported using taxis. This is 4% of total students transported. The total cost of taxis used by CSAP was $454,866.

**7.60** The contract includes a provision for CSAP to request removal of any driver convicted of a criminal offense and indicates that the drivers are to be of "good moral character". The contract does not include a specific requirement for all drivers to undergo a criminal record/child abuse registry check prior to hiring. CSAP is entitled under the contract to examine drivers' record abstracts but this is not done. We understand from our audit of Strait Regional School Board (see Chapter 8) that DOE and school boards discussed requirements for child abuse and criminal record checks. DOE and school boards decided that all new school board employees were to have criminal record/child abuse registry checks; existing employees were exempt. The rationale for this decision was primarily the administrative burden on the agencies which would need to perform the checks for all existing school board employees across the Province. For safety reasons, we believe that it is important for CSAP to ensure that all drivers have been appropriately screened prior to hiring regardless of whether they are employees of the Conseil or the contractor.

**Recommendation 7.5**

**We recommend that CSAP require the contractor to provide proof that all contracted drivers have undergone criminal record and child abuse record checks prior to driving. CSAP should also review driver record abstracts for all drivers of contracted buses prior to driving.**

**7.61** Establishing school bus routes – The contracted service provider plans routes. Routes are created to adhere to regulations and there are no set standards for the number of buses or utilization rates. Board management is involved in the

ongoing review of bus routes including detailed reviews in certain geographical areas each year. The proposed routes are reviewed by CSAP management. The service provider provides CSAP options for the routes with different bus/taxi combinations and related costs. Because CSAP serves the entire Province and its students are widely dispersed, route planning is a challenge. CSAP indicated that it chooses the most economical option that fits within regulations. This most often is the option that has more taxis than buses. Routes are re-examined each fall by CSAP management.

**7.62** The cost of the contract with the service provider is based on two components; the cost of using school buses and the cost of using taxis. In the contract, the daily rate to be charged per bus is outlined as well as the payment terms. There is no discussion of the method used to determine the cost of taxis. Management has indicated that the service provider subcontracts the taxi service and negotiates the cost with the taxi companies directly. CSAP has not stipulated any criteria for the subcontractors in the contract. Management indicated that the service provider does not include a surcharge when invoicing CSAP for taxi charges and that taxi charges are approved by CSAP when the routes are established.

**Recommendation 7.6**

**We recommend that CSAP include the details for acquisition of taxi services in its future contracts for student transportation.**

**7.63** Reporting - As stated in the contract, CSAP is to annually receive a listing of drivers and routes, driving abstracts and the expiry of driver first aid qualifications. Management indicated that they requested the service provider to keep this information. CSAP has not requested to see this documentation.

**7.64** CSAP also does not receive information concerning the operational performance or legislative and contract compliance of its service provider. CSAP places reliance for the monitoring of compliance on the Nova Scotia Utility and Review Board (NSURB). Part of the responsibility of the NSURB is to ensure that transportation service providers for students (including the school boards and contractors) comply with the Motor Carrier Act. Management believes that since the CSAP service provider is subject to the same regulations as the school boards for maintenance, safety, and training, CSAP can rely on the NSURB monitoring process.

**7.65** CSAP also relies on the Nova Scotia Pupil Transportation Advisory Committee. CSAP is a member of this committee. The objectives of the committee are to promote safety in pupil transportation, develop and share knowledge, and administer the Nova Scotia Pupil Transportation Achievement Awards process. This process is administered by a three-person sub-committee. The purpose of the Pupil Transportation Awards is to evaluate all school bus carriers annually.

**7.66** The process includes an evaluation of several aspects of pupil transportation operations. The provider of CSAP transportation has been awarded a gold rating

each year of its contract, except for 2004 (the most recent year) when it was awarded a silver award. Two buses did not have evacuation procedures and the first aid qualifications of four drivers had expired which led to the reduced award.

**7.67** CSAP does not request or receive the details of the evaluation. It is in regular contact with the service provider and believes it is receiving the level of detail needed. We believe this evaluation report would be useful to CSAP in identifying any deficiencies and areas of non-compliance not readily apparent from the final rating.

**Recommendation 7.7**

**We recommend that CSAP require the contracted transportation service provider to provide an annual report on operations and copies of all safety-related reports relating to the contracted operations. CSAP should review this information for evidence of compliance with the contract, CSAP policies and legislation.**

## Testing of Transactions

**7.68** We tested a sample of 2004-05 expense transactions in selected areas for compliance to policies. All items tested complied with the applicable policies. We also accessed CSAP's financial records electronically and analyzed certain accounts such as senior management and Conseil stipends for compliance with CSAP and Department of Education policies. We found no exceptions.

## Due Regard for Economy and Efficiency

**7.69** Service delivery - CSAP has the smallest number of students when compared to the other school boards but it covers the largest geographic area. This presents challenges when attempting to balance due regard for economy and efficiency with a legislated Province-wide mandate. One of these challenges is student transportation as discussed above.

**7.70** Section 12 of the Education Act includes a reference to value-for-money. It specifically says CSAP can provide the education service *"if the numbers warrant the provision of the program out of public funds"*. However, the Act does not define when numbers would warrant provision of the program. The language in this section of the Act is the same as that in the Canadian Charter of Rights and Freedoms. Review of enrollments for 2005-06 shows that average enrollment at CSAP schools is 219 students. However, there are two schools that have less than 100 students. One of those schools provides services for grades primary to 7 and the other is from pre-primary to grade 12.

**7.71** One of our objectives was to gain an understanding of the services CSAP shares with other school boards and organizations. CSAP's business plan for 2005-06 includes objectives related to partnerships with Provincial and federal government

agencies. The Conseil uses communication technology extensively to reduce travel costs. All of the high schools have video conferencing capabilities and the Conseil's committees use internet-based communication software to reduce the need for face-to-face meetings.

7.72 There are currently no shared service arrangements between CSAP and the regional school boards other than in the student transportation area (see paragraph 7.52). CSAP believes that the language of operation creates an impediment to sharing services with other boards. CSAP participates in the Nova Scotia School Boards Association and suggested to our Office that the NSSBA should take an enhanced role in sharing policy development, procurement and other areas.

7.73 CSAP participates in French curriculum development initiatives with other Atlantic provinces. It also shares available community center space in its schools with French community groups. The schools' video conferencing capabilities are used to share a number of high school courses which are offered on-site at one school and via technology to small groups of students at other schools. This enables the high schools to provide a wider variety of course offerings.

7.74 We acknowledge that sharing services is a challenge for CSAP because, unlike other school boards in Nova Scotia, its language of operation is French and it has a mandate to promote French culture. These factors create an impediment to sharing of services. CSAP indicated that the language of operation has preempted many sharing initiatives. However, we believe that CSAP, DOE and other school boards should explicitly consider both due regard for economy and efficiency and cultural factors when decisions are made on whether certain services should be shared. We believe that costs have not always been considered appropriately. For example, the decision to operate a separate student transportation system, discussed in paragraphs 7.51 to 7.54 above, was not supported by a formal analysis of costs and benefits.

**Recommendation 7.8**

We recommend that the DOE, CSAP and RSBs make a concerted effort to consider shared services in order to achieve due regard for economy and efficiency while maintaining the importance of the cultural mandate. CSAP should formally analyze both the cultural factors and costs of sharing versus stand-alone options and attempt to minimize costs when making decisions.

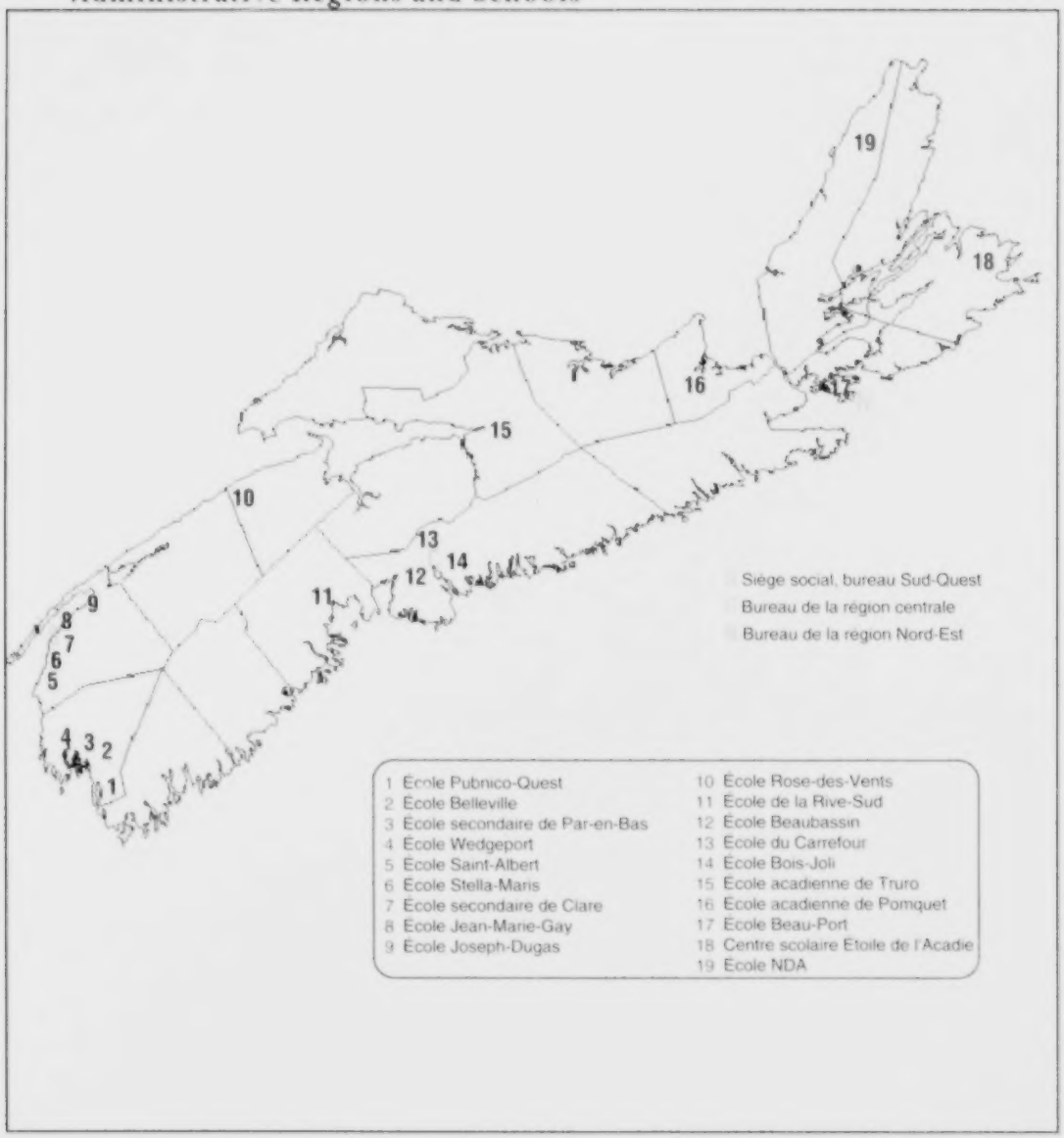
## CONCLUDING REMARKS

7.75 We concluded that CSAP is well governed. We have made a few recommendations to strengthen certain aspects of operations and governance particularly in the area of improved controls over school-based funds.

**7.76** CSAP faces significant challenges in providing Province-wide services to a very dispersed student population. We believe that it is very important for CSAP to be accountable for achievement of due regard for economy and efficiency in the expenditure of public funds even though it uses a different language of operation, has a legislated mandate which differs from other school boards, and separate governance. Achieving both the distinct mandate of providing services to a minority and economical administration is a challenge. Options for sharing services with other school boards should be formally considered and both cultural issues and related costs and benefits for the education system as a whole should be analyzed when decisions are made.

Exhibit 7.1

## Conseil scolaire acadien provincial
## Administrative Regions and Schools



## Conseil scolaire acadien provincial
## Organization Chart

Exhibit 7.2

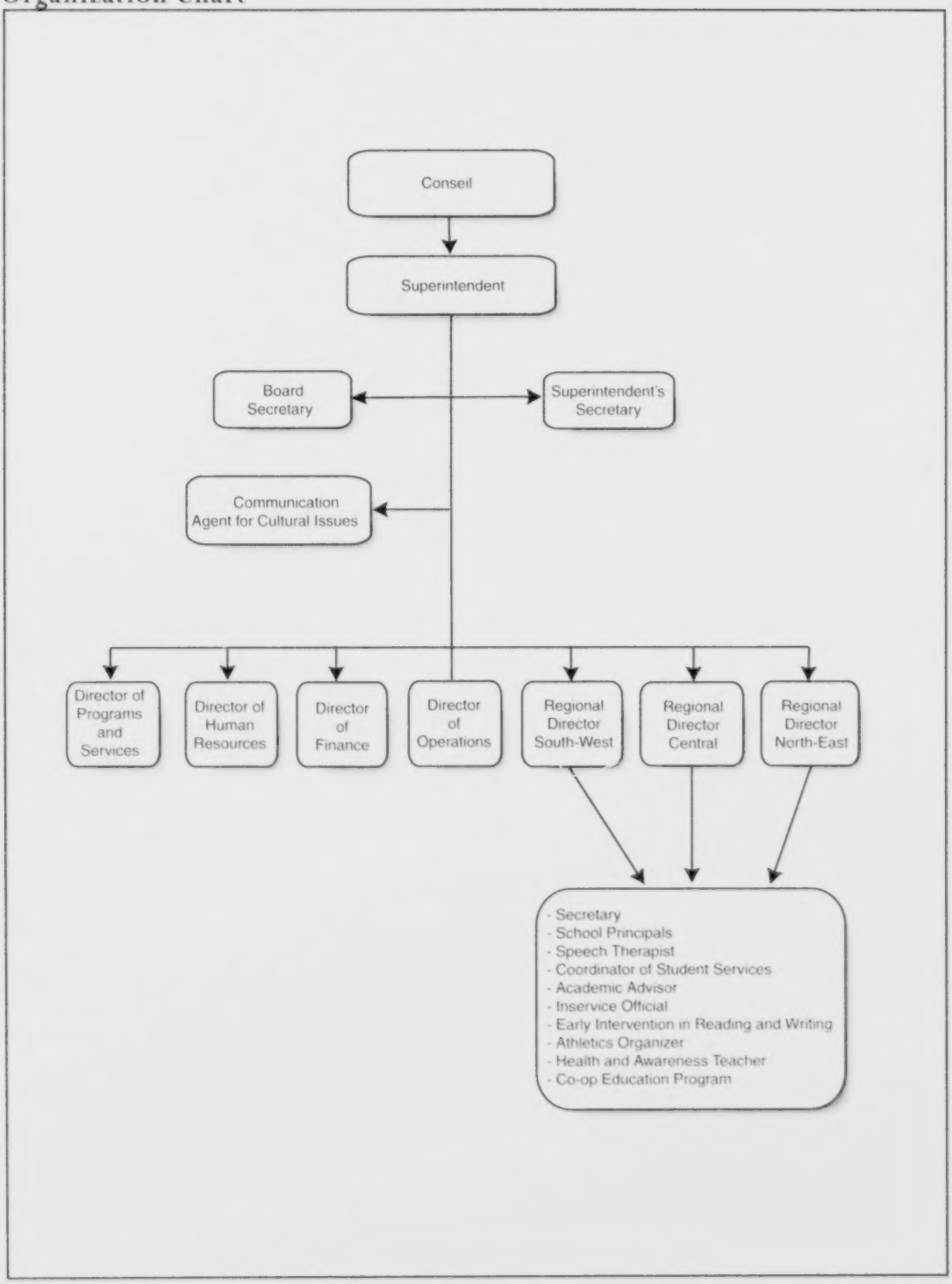
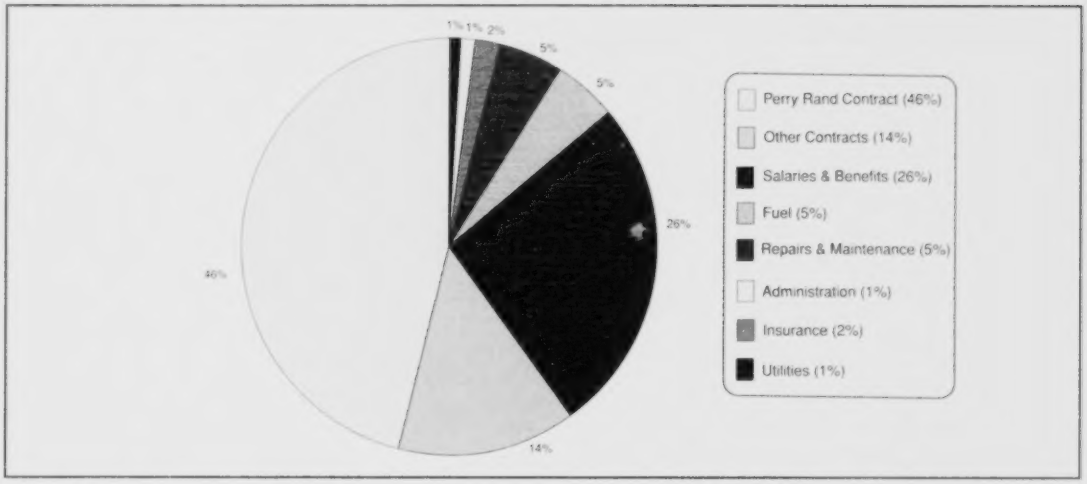
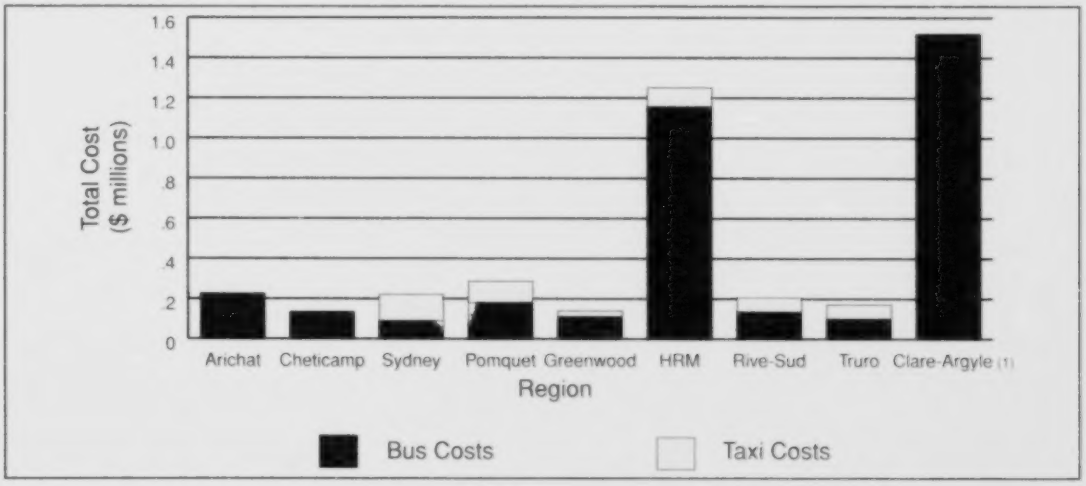


Exhibit 7.3 **Pupil Conveyance Expenditures 2004-05**




Source: *CSAP financial system*

Exhibit 7.4 **Transportation Costs by Region 2005-06**

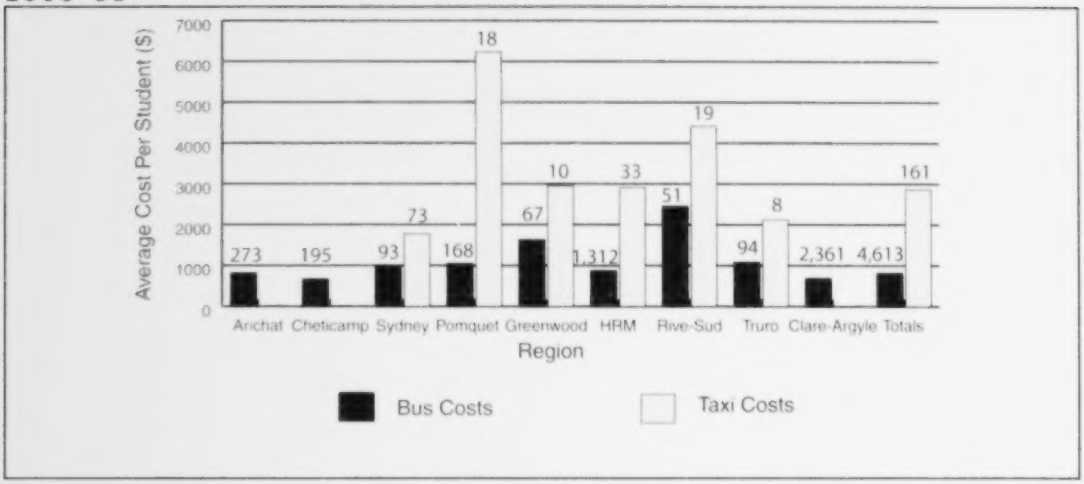



Source: *CSAP financial system. Figures have not been audited.*

(1) Not included in transportation contract

## Average Cost per Student for Bus and Taxi Transportation by Region 2005-06

Exhibit 7.5




*Note:* Number of students transported at average cost indicated is shown at top of column. For example, in HRM 1,312 students are transported by bus at an average annual cost of $877 per student and 33 students are transported by taxi at an average annual cost of $2,916 per student.

*Source:* Data provided by CSAP. Figures have not been audited.

## LA RÉPONSE DU CONSEIL SCOLAIRE ACADIEN PROVINCIAL

Conseil scolaire acadien provincial a grandement apprécié cette expérience et tient à remercier le personnel du bureau du vérificateur général pour ses compétences et son efficacité. Ce regard professionnel et indépendant posé sur nos pratiques a permis et généré des remises en question qui sont synonymes d'évolution dans toute organisation.

C'est avec enthousiasme que nous mettrons en oeuvre les recommandations du rapport. Nous serons heureux d'accueillir à nouveau les membres de l'équipe de vérification générale d'ici trois ans pour constater les améliorations découlant de leurs recommandations qui nous permettent de mieux accomplir notre mandat.

## BACKGROUND

**8.1** The regional administration office of the Strait Regional School Board (SRSB) is located in Port Hastings, Inverness County. Regional operations, technology and professional development services are provided through facilities located in Mulgrave, Guysborough County. In 2004-05 total student enrollment was 8,957 of which 8,510 or 95% were bused to the region's 27 schools. SRSB's jurisdiction encompasses an area of approximately 11,000 square kilometers with a population base of 61,410. SRSB serves the four counties of Antigonish, Guysborough, Inverness and Richmond.

**8.2** The legislative authority for the provision of publicly-funded education programs and services in the Province falls under the Education Act and regulations. This legislation includes a definition of the general roles and responsibilities of the many stakeholder groups involved in the delivery of public school programs including the Minister, Regional School Boards, senior management, teachers, parents and students.

**8.3** Regional School Boards (RSBs) are accountable to the Minister of Education and responsible to administer the public schools within the school region. The Board responsible for Strait region's schools is comprised of 12 members, 11 of whom are elected and one Mi'kmaq representative appointed by the Minister of Education. The term of office of current SRSB members is from November 2004 to November 2008. The SRSB has one standing committee which is the Working Committee of the Board. Several other ad hoc committees are also created to address specific issues identified by the SRSB (see paragraph 8.64).

**8.4** The Superintendent is accountable to the SRSB and has overall responsibility for the operation of the school board office and public schools, as well as the supervision of all SRSB employees. The Superintendent is supported by three Directors who have operational responsibility in the following areas: Programs and Services, Finance and Human Resources, and Operations. The Superintendent and the Directors form the senior management group at SRSB.

**8.5** The SRSB employs a total of 1,083 staff including 618 (full-time equivalents) teaching staff and 465 employees who provide support services to the Board. Actual total expenditures for the SRSB in 2004-05 were $71.7 million, budgeted expenditures for 2005-06 are $69.9 million. At March 31, 2005 the accumulated surplus at the SRSB was $4,346,049 of which $2,836,809 related to tangible capital assets and was not available for other expenditures.

**8.6** Unlike some of the other RSBs in the Province, SRSB operates all aspects of its student transportation system rather than contracting out to a third-party service

provider. Article 31 of the CUPE Local 955 agreement stipulates that " *no work or services presently performed by Employees shall be contracted out, ...*" Student transportation systems must be operated in accordance with federal and Provincial legislation such as the Education Act, Environment Act, Motor Carrier Act and the Motor Vehicle Act and Regulations. The average cost of bussing students at the SRSB in 2004-05 was $711 per student.

**8.7** In November 2001 the Province contracted PricewaterhouseCoopers to conduct a forensic audit at the SRSB due to allegations of irregular financial transactions and contractual commitments. The resulting report from the forensic audit raised concerns of significant financial mismanagement. In April 2002 the Province revoked the regional status of the SRSB. A pilot structure was created where an elected District Board was responsible for governance of the education system and support services were provided to the District Board by the Province through a Regional Board. In August 2004 the Province made changes to the Education Act and Regulations which returned the Strait District Board back to regional status with all the same authorities and responsibilities as other Regional School Boards.

**8.8** We have not conducted any previous audits at SRSB.

## RESULTS IN BRIEF

**8.9** The following are the principal observations from this audit.

- Most areas we examined were governed and managed appropriately. We made recommendations to strengthen certain aspects of operations and governance.

- The SRSB approves an annual budget and business plan consistent with the requirements of the Department of Education. There is no formal system to monitor progress on all goals, priorities and performance measures included in the business plan. However, we acknowledge that the Board actively monitors certain important initiatives such as student performance and staffing.

- The Department of Education has made changes to the Education Act respecting senior management pay scales and commercial activity designed to help promote consistency in all school boards in the Province. We believe the Department needs to seek Executive Council approval for commercial activity and establish appropriate pay scales for all non-unionized staff.

- The SRSB has established a process for the annual evaluation of the Superintendent's performance. We have noted areas where this process could be improved including use of measurable performance criteria and targets.

- SRSB management created procedures and a process to monitor school-based funds at the school level. We noted some exceptions to recommended procedures at the two schools we visited.

- The SRSB needs to develop a policy which details the requirements for criminal and child abuse record checks for bus drivers and other Board staff and the action to be taken if issues are found. The current practice of SRSB is to perform checks for new employees only and is consistent with a decision made by the Department of Education and Regional School Boards.

- SRSB should investigate the potential for significant fuel cost savings through purchase of fuel from Department of Transportation and Public Works facilities throughout the Strait region. Our audit work identified significant savings in the one area where such purchases had been implemented.

- The SRSB needs to strengthen its process for monitoring fuel consumption to help ensure detection of any inefficient or inappropriate use.

## AUDIT SCOPE

**8.10** The major objectives of our audit of the Strait Regional School Board were to review and assess:

- Board compliance with by-laws and certain aspects of the Education Act and Regulations focusing on general responsibilities of School Boards and accountability to the Department of Education;

- appropriateness of information provided to the Board to enable it to fulfill its stewardship responsibilities;

- compliance of student transportation operations with applicable legislation;

- management processes, operational systems and practices to achieve due regard for economy and efficiency in the student transportation area; and

- financial transactions for the fiscal year 2004-05 and test a sample of transactions for compliance with Board policies.

**8.11** Our audit criteria were obtained from recognized sources and have been accepted by the Board as appropriate.

**8.12** Detailed on site fieldwork was conducted during January and February of 2006. Our audit procedures consisted of an analysis of 2004-05 expenditures, detailed testing of a sample of expenditures and bus maintenance files, review of relevant Board and Committee minutes, interviews with management and Board representatives, as well as examination of other documentation deemed to be relevant. Our audit procedures also included interviews with management of the Nova Scotia Utility and Review Board (NSURB), Department of Education (DOE) and Service Nova Scotia and Municipal Relations (SNSMR) and a review of school-based funds at two schools.

## PRINCIPAL FINDINGS

### Business Planning and Performance Reporting

**8.13** SRSB educational business plan - An educational business plan is prepared annually by management and submitted to the Board for review and approval. The business plan is prepared using a template provided by the Department of Education and includes goals and priorities for the upcoming year as well as a report of achievements and outcome measures specific to each goal identified in the plan. Although the priorities and goals in the business plan can have a longer-term focus the Board has recognized the need to develop a long-term strategic plan. Management does not currently prepare operational plans supporting the goals and priorities identified in the business plan.

**8.14** Monthly Directors' reports - Directors prepare monthly reports for review and discussion during Working Committee meetings. Based on our review of a sample of these reports and through discussions with management we noted that regular, formal reporting to the Board does not include monitoring of progress against all the goals, priorities and performance measures detailed in the business plan and should be improved. However, we acknowledge that certain important initiatives such as student performance and staffing are actively monitored. Both management and Board representatives indicated performance reporting against the business plan tends to be done verbally during meeting discussions.

**Recommendation 8.1**

**We recommend that the Board ensure that management regularly reports progress against all goals, priorities and performance measures detailed in the annual educational business plan.**

### Approval and Monitoring of Annual Budget

**8.15** Budget approval - The initial draft budget is prepared by management and provided to the Board for review and challenge during a special Working Committee meeting. The 2005-06 operating budget was approved by the Board on June 15, 2005 during a regular Board meeting.

**8.16** Prior to receiving the draft budget, the Board reviews and approves the staffing levels for all schools and central office staff. These staffing levels form the basis for the salary budget for the next year. Based on discussions with Board Finance staff, we noted that other assumptions and calculations supporting the budget would be provided to Board members during verbal presentations but are not formally documented. We also noted that the link between what is being funded in the budget and the priorities and goals in the business plan is not clear, although we acknowledge that not all priorities and goals would require additional financial resources.

**Recommendation 8.2**

**We recommend that important information such as budget assumptions and calculations as well as the link between the business plan and the budget be formally documented and provided to the Board.**

**8.17** Financial monitoring - Overall financial information reported by management to the Board is appropriate and there is opportunity for Board members to review and challenge the information provided. We noted that there is no reporting to the Board with respect to the use of school-based funds with the exception of the audited financial statements. Also, the process of forecasting financial results to year end should begin earlier in the fiscal year and include all line items with narratives provided for significant variances.

## Compliance with the Education Act and Regulations

**8.18** Reporting to the Department of Education – The Education Act and regulations require that specific reports be provided to the DOE within a specified time period. We noted that reporting requirements for 2004-05 were met by SRSB with the exception of the Salaries and Expense report which was submitted after the stated deadline, although the Department had approved an extension.

**8.19** Board management pay scales - The Ministerial Education Act Regulations establish the pay scales for Regional School Board senior staff. The regulations define senior staff to include the Superintendent and Directors. We examined the pay scales of senior staff at the SRSB and concluded that they were in compliance with the regulations.

**8.20** We noted that pay scales for non-union staff are not consistent among Regional School Boards. We believe that the Department needs to provide salary guidance for all non-union positions to ensure consistency throughout the Province.

**Recommendation 8.3**

**We recommend that the Department of Education and RSBs establish salary guidance for all non-union staff at Regional School Boards.**

**8.21** Commercial activity – Section 64 (A) of the Education Act states, "*A school board shall not engage in or carry out any commercial activity, including lending, without the approval of the Governor in Council.*" The regulations provide some additional guidance on the definition of commercial activity, but the intention is not clear. However, the Department of Education wrote to all school boards in 2002 indicating that commercial activity included "*all activities being (or anticipated to be) conducted in the present fiscal year for which gross revenue is generated for the board, including community use of schools activities*" and asking for a report of relevant activities. SRSB responded with a list of its

activities. The Department of Education accumulated a list of commercial activities at all school boards in 2002 but did not request Executive Council approval.

**8.22** We found that SRSB rents space and equipment to local business and community groups during both regular and after school hours but to date the rental income generated has been insignificant.

**Recommendation 8.4**

**We recommend that the Department of Education seek Executive Council approval for school board commercial activities as required under Section 64 (A) of the Education Act.**

**8.23** Audit Committee – The Board Audit Committee fulfills its responsibilities under the Education Act. In the August 2005 Committee minutes, a motion was passed to recommend that the new Audit Committee consider hiring an internal auditor to provide further support to the Committee. This issue was discussed at the initial meeting of the new Committee where it was decided that an internal auditor was not required.

**8.24** Attendance at Board meetings – The Education Act stipulates requirements for Board member attendance at meetings. Members who miss three consecutive regular meetings without a reasonable excuse will cease to be a member of the school board. Our review of Board attendance since November 2004 indicated that members were in compliance with the Act although we did note indications of poor attendance by some members. We acknowledge that the governance model in effect at the Board does require member attendance at many meetings. The Chair of the SRSB estimated member time requirements to be three meetings totalling 12 to 18 hours a month. Board members participating on committees would have additional time requirements.

## Board Governance

**8.25** Annual evaluation of the Superintendent – The Board performs an annual performance evaluation of the Superintendent. We reviewed the performance criteria used for the 2004-05 evaluation. We noted that the criteria were not formally agreed to by both the Board and the Superintendent at the beginning of the year and in many cases they were so broad that measurement was difficult. For the evaluation process to be most effective, performance expectations should be defined at the beginning of the year and include specific targets for which results can be measured. The Board is currently working in conjunction with the Nova Scotia School Boards Association and DOE to develop and implement a Provincial strategy for evaluation of all Superintendents. Implementation is planned for the 2006-07 academic year.

**Recommendation 8.5**

**We recommend that annual performance expectations for the Superintendent should be clearly defined and include measurable performance targets.**

**8.26** Annual evaluation of Board members - To help ensure the SRSB continues to be effective with respect to its governance roles and responsibilities, it is important that the performance of the Board and individual members be evaluated annually. This process could be in the form of a self-evaluation where accomplishments are compared against goals and targets established at the beginning of the year. The Board currently does not have such a process in place.

**8.27** Expense claim documentation – As part of our review of SRSB expenditures we tested the documentation supporting a sample of eight senior management and four Board member expense claims. We noted five instances where supporting documentation for senior management claims needed improvement. For example, we noted cases where hospitality meals were claimed without documentation of the name and reason. Copies of debit or credit card slips, rather than the original invoice, were filed in some cases. The SRSB travel policy requires that receipts be provided to support claims for meals but should be updated to specifically address hospitality meals provided by management.

**Recommendation 8.6**

**We recommend that the SRSB update its travel policy to improve documentation supporting expense claims.**

## School-Based Funds

**8.28** Safeguarding of school-based funds – Individual schools and students raise funds to help support various school activities during the year. These funds are managed by the individual school and are ultimately the responsibility of the principal. At March 31, 2005 the audited financial statements of the SRSB reported the balance of school-based funds to be $676,575 which included additions during the year of $1,212,507 and disbursements of $1,048,099. The audit report included a qualification with respect to the completeness of such funds. The large amounts of cash pose a potentially high risk. The SRSB has implemented controls to address this risk.

**8.29** Management at SRSB has created guidelines respecting the safeguarding of school-based funds. These guidelines have been distributed to the schools and include requirements for bank accounts, cash receipts and disbursements, bank reconciliations and submission of an income and expense statement at the end of each school year to head office. These guidelines have not yet been approved by the Board but have been distributed to all schools. The SRSB plans to develop a policy on school-based funds in the spring of 2006.

**8.30** Management has established an ongoing process of visiting schools every two years to assess compliance against these guidelines and make recommendations for improvement. We visited two schools to assess whether guidelines were being followed and to identify possible areas for improvement. We noted a few instances where guidelines were not being followed. For example, at one school receipts were not being provided when cash was collected and the other school had multiple bank accounts.

## Student Transportation Function

**8.31** Background - The student transportation system is administered from the Mulgrave operations building. The Board employs two Pupil Transportation Managers (Managers) who are responsible for supervising and monitoring the daily busing of students (see Exhibit 8.1). The SRSB had 8,957 students enrolled during the 2004-05 school year, of which 8,510 or 95% were transported to school by SRSB (see Exhibit 8.3). The average cost of busing a student at SRSB is $711 per year and the average distance traveled is 70 kilometers per day.

**8.32** Students eligible for transportation - Section 6.1 of the Governor in Council Regulations under the Education Act requires that school boards transport all students who reside more than 3.6 kilometers from school. Department of Education officials informed us that the distance specified in the regulations is the minimum level of service to be provided and that school boards can develop their own transportation policy based upon the particular circumstances which exist in the jurisdiction.

**8.33** The SRSB has approved policy guidelines relating to student transportation service standards which include eligibility criteria. The SRSB transports all students in Primary to Grade 8 who reside more than 0.8 kilometers from school and all students in Grades 9 to 12 who reside more than 1.6 kilometers from school. SRSB management informed us that the distances currently being used were based on a 2001 review which included extensive community consultation and analysis including a comparison with other RSBs. Our review of distances reported by other school boards to the DOE in November 2004 indicated that there is a wide variation in distances currently being used. We acknowledge that safety conditions for walking, such as whether sidewalks are present, also vary among RSBs. SRSB management is not aware of the costs associated with providing an enhanced level of service beyond what is required under the Education Act. Management indicated that a Board Committee plans to review standards in the current year.

**8.34** Student transportation funding provided by the DOE to school boards is based on two different methods. Baseline funding represents 75% of the total transportation funding and is based on a fixed dollar amount of $41,100 per approved bus. The remaining 25% of the funding received is determined by a formula which considers such factors as student enrollment and the square mileage covered by the school board.

**8.35** Courtesy busing - The Board has a policy on the transportation of courtesy students. Courtesy students will be transported if the bus does not have to be

re-routed, space is available and the additional stop will not unduly extend the traveling time of the first student picked up. The SRSB does not maintain any statistics on the number of courtesy students transported.

**8.36** Establishing school bus routes – The SRSB policy guidelines describe a process of ongoing review of bus routes including detailed reviews in certain geographical areas each year. *Management indicated that route planning involves creating and* scheduling bus routes and stops after assessing upcoming transportation needs and legislated requirements.

**8.37** Section 14.2 of the Governor in Council Public Passenger Motor Carrier Act Regulations requires that there be a maximum of three stops every 1.6 kilometers. NSURB management indicated that additional stops would pose a potential safety risk. We selected a sample of four bus routes from maps provided by management and assessed compliance against Section 14.2 of the Act. In all four cases sampled, management indicated that the number of stops exceeded the regulations and they have subsequently adjusted the stops accordingly. We were told that management is aware of the regulation and does not knowingly deviate from it.

**8.38** Licensing, hiring and training school bus drivers - School bus drivers play a vital role in ensuring students are safely transported to school. Licensing of bus drivers is the responsibility of the Registry of Motor Vehicles and includes written and road tests along with proof of medical fitness. The hiring and training of bus drivers is the responsibility of the Board. The majority of bus drivers at the SRSB work five-hour days, 191 days of the year. We selected a sample of bus drivers to determine whether SRSB had collected and reviewed appropriate documentation as per Board policy. We had no findings except those noted in the following paragraph.

**8.39** We were informed by SRSB management that, based on a decision made by the Department of Education and Regional School Boards, child abuse and criminal record checks were not required to be performed on bus drivers, or any other staff, employed by Boards. All new employees were to have child abuse and criminal record checks; existing employees were exempt. The decision was primarily due to the administrative burden on the agencies which would need to perform the checks on all existing school board employees across the Province. However, there is no policy guidance on action to be taken when checks identify potential safety risks. In addition, the initial training program for casual drivers does not include first aid or professional driver improvement or defensive driving training although this training is provided at a later date.

**Recommendation 8.7**

We recommend the Board update its policy on performance of child abuse and criminal record checks to clearly state action to be taken if risks are identified.

**8.40** Student bus safety training - A student safety program is provided to all students in Primary to Grade 4 each year. The program includes training on a bus, a bus safety video and take-home safety material.

**8.41** The SRSB requires that bus drivers perform emergency evacuation drills three times per year. A bus evacuation form must be completed by the bus drivers for the first evacuation drill, signed by the school principal and submitted to the Operations Division. We noted instances where these forms had not been submitted. We also noted the second and third evacuation drills are not required to be documented in writing.

**8.42** Nova Scotia Pupil Transportation Advisory Committee - The Board is a member of the Nova Scotia Pupil Transportation Advisory Committee. The objectives of the Committee are to promote safety in pupil transportation, develop and share knowledge, and administer the Nova Scotia Pupil Transportation Achievement Awards process.

**8.43** Each year the Committee presents Achievement Awards including an evaluation of several aspects of pupil transportation operations. The SRSB has been awarded a gold rating since its creation, except for 2004 (the most recent year) when it was awarded a silver award. Causes of the lower rating were failure to provide recommended training/retraining to all bus drivers, concerns over the cleanliness of the Mabou garage and the bus fleet, and instances of non-adherence to the requirement of a maximum of three bus stops every 1.6 kilometers. Board staff informed us action has been taken to address certain findings and the remaining findings will be addressed in the future.

**8.44** Private conveyors - The Board uses private conveyors in cases where busing is not practical. During the 2004-05 academic year, 12 private conveyors were contracted by the SRSB to transport 30 students at a cost of $86,908 or $2,897 per student. The Board has developed standard payment rates and all private conveyors are required to sign a Student Conveyance Contract, and submit certain documentation including a bi-weekly claim for payment signed by the school principal.

**8.45** We examined a sample of claims and required documentation for two private conveyors. We had no findings as a result of our examination of claims submitted. We did, however, identify some issues with respect to file documentation such as:

- There is no checklist used to ensure that all documents were received.
- Neither private conveyance contract was signed on behalf of the Board.
- There was one instance where a replacement driver had been convicted under the Criminal Code of Canada for driving while impaired prior to his application to the Board.

**8.46** Management indicated that the replacement driver noted in the file we reviewed was not authorized to drive, had been notified that he was ineligible by phone, and did not drive for SRSB. However, this was not evident based on our examination

of the documentation in the file and we recommend that documentation be improved.

**Recommendation 8.8**

**We recommend that SRSB establish a process to ensure that all required documents supporting the use of private conveyors are received and appropriately reviewed.**

## Fleet Operations Management

**8.47** Background - The SRSB performs in-house maintenance and repairs on all its buses except for certain types of warranty work. The majority of this work is performed at the Mulgrave garage with the exception of minor repairs which are performed at the satellite garages in Mabou, Inverness County and Sherbrooke, Antigonish County. With the exception of management, SRSB employees are unionized and subject to the provisions of related collective agreements. See Exhibit 8.3 for key statistical information.

**8.48** Reporting to Board and senior management - Managers reporting to the Director of Operations are not required to prepare periodic status reports. Monthly meetings are held to discuss significant issues or concerns within the Division. The Director is responsible for preparing a budget, monitoring actual expenditures and forecasting expenditures to year-end for his areas of responsibility (see Exhibit 8.1 for organization chart). The Director is a member of the senior management team and verbally reports on his areas of responsibility during weekly senior management meetings.

**8.49** The Board is presented with monthly financial statements which show the actual and budgeted expenditures for the current year and actual expenditures for the previous year. An appropriate breakdown of pupil transportation expenditures is included in the statements. The Board also receives a monthly operations report which includes information on significant issues and initiatives related to student transportation and routing.

**8.50** Monitoring of garage operations - The Manager of Fleet Maintenance is responsible to monitor daily garage operations. Using a computerized fleet maintenance program called "Dossier" a report is prepared that identifies all outstanding work orders. This report is used by the Manager to monitor operations. Upon completion of each work order, mechanics are required to record the time it took them to complete the work. This information is entered into the Dossier system.

**8.51** The Board has not established efficiency standards to assess the performance of garage and body shop staff. Management indicated that although efficiency standards have not been established, time on task is routinely compared informally against standard warranty work times and expected average mechanic's time by task. Management also indicated that the number of units per mechanic is

compared with other RSBs. We believe a more formal process should be developed to monitor actual results against efficiency standards.

**Recommendation 8.9**

**We recommend that the Board, in cooperation with DOE and other Regional School Boards, establish a formal process to monitor garage and body shop operations against approved efficiency standards.**

**8.52** School bus maintenance program - The Board has developed a formal maintenance schedule for its bus fleet based upon the number of hours and days school buses are in service. The Board uses the Dossier system to schedule and track all maintenance and repair work. This system is not being used to track the cost of fuel by bus (see paragraph 8.63).

**8.53** We selected four buses and reviewed maintenance files to assess whether service standards were met. In all four cases, evidence in the maintenance files suggests that service standards have been met and in some cases exceeded. We noted that required preventative maintenance checklists supporting the work performed were not being properly completed.

**8.54** Nova Scotia Utility and Review Board inspections - NSURB inspectors perform motor vehicle inspections on all school buses twice a year. Section 40 of the Public Passenger Motor Carrier Act Regulations requires the Board to inspect all school buses between July 1 and August 31. The SRSB also performs an annual brake inspection.

**8.55** With the assistance of NSURB management, we compared the deficiencies noted on the NSURB September/October 2005 bus inspection reports to the SRSB inspection reports performed during the summer of 2005. We noted cases where NSURB identified deficiencies that should have been addressed during Board summer inspections. Management indicated that, in some cases, SRSB staff may have missed the deficiency noted on the NSURB inspection. In other cases, the requirement for work was a matter of professional judgement. Some of the deficiencies identified could have occurred between the inspection periods.

**8.56** Fuel storage tanks - The SRSB currently operates six bulk fuel storage tanks in various locations throughout the region. The Petroleum Management Regulations under the Environment Act stipulate certain requirements which must be met when storing large amounts of fuel including regular monitoring, inspection and maintenance of tanks. To date, SRSB has not developed a policy relating to fuel storage tanks such as a schedule for tank retirement although all tanks are fiberglass with cathodic protection which helps limit the risk of leaks. It is important to note that SRSB self-insures its fuel storage tanks so clear policies and procedures designed to mitigate risk are important.

**8.57** We requested SRSB management to complete a questionnaire detailing current fuel storage practices. The responses identified areas where the SRSB was not complying with the regulations. For example, there was no recording of visual inspections or maintenance on above-ground tanks, and inventory levels in below-ground tanks were not being monitored. Management indicated that new procedures were implemented as a result of the audit. We also identified one case where a storage tank was no longer used and written approval to abandon the tank had not yet been sought from the Department of the Environment as required by legislation.

**Recommendation 8.10**

**We recommend that SRSB develop and implement a policy with respect to fuel storage tanks and ensure current practices comply with legislation.**

**8.58** Procurement of fuel - Diesel and gas purchases by the SRSB in fiscal 2004-05 totaled approximately $820,000 which represents 1,083,565 liters of diesel and 158,387 liters of gas (see Exhibit 8.4). The SRSB currently uses three different sources for fuel purchases: bulk purchases, which are stored at SRSB facilities; direct purchases from Department of Transportation and Public Works (Antigonish only); and retail stations.

**8.59** Management has indicated that, due to the large geographical region covered by the SRSB including many remote communities, determining the most economical method to purchase fuel is difficult. For example, factors such as the distance a bus must travel to receive fuel as well as the risks and costs associated with the bulk storage of fuel need to be considered. Management indicated that a fuel procurement review was conducted by the Board in 2004-05 resulting in a decision to install fueling tanks with automated dispenser systems at the Mulgrave and Mabou facilities. This decision was expected to significantly reduce fuel costs and provide better information to analyze fuel usage and costs in the future.

**8.60** We requested a copy of the analysis supporting the decision to install automated dispensers. We expected the analysis would include identification and detailed evaluation of possible alternatives to clearly demonstrate that the action taken provides the best value for money. Although management has provided us with a description of the planned benefits of the action taken, a detailed analysis was not provided.

**8.61** Our review of fuel purchases for 2004-05 and 2005-06 indicated that the percentage of diesel fuel purchased from retail stations declined from 50% in 2005 to 33% in 2006. During this time, the price per liter at retail stations was an average of $0.25 higher than the amount SRSB paid for bulk-purchased fuel. It should be noted that there are additional costs associated with the storage of bulk fuel such as the cost and maintenance of fuel storage tanks which are not included in this analysis (see Exhibit 8.4). We also noted that diesel fuel purchased from

the Department of Transportation and Public Works (DTPW) over the same 2-year period was approximately $0.20 per liter cheaper than the retail purchases.

**8.62** We recognize that the options available to SRSB with respect to some of these purchases may be limited but we believe purchasing diesel fuel from DTPW sites throughout the Strait region would lead to cost savings if DTPW has the capacity to meet SRSB's needs. SRSB management indicated that they recognize the potential cost savings to the Board by purchasing fuel from DTPW. However, past attempts to reach an agreement with DTPW have failed.

**Recommendation 8.11**

**We recommend that SRSB and DOE continue to investigate opportunities for the purchase of fuel from DTPW facilities.**

**8.63** Monitoring fuel consumption and use - Based on discussions with management and our review of relevant documentation, we noted areas where practices for monitoring fuel consumption and use should be improved. For example, the SRSB does not monitor fuel usage by vehicle over time which would provide valuable information with respect to the efficiency of vehicles as well as possible misuse of fuel by staff. Management indicated that daily fuel records and monthly automated dispensing printouts from the Board-owned system and DTPW software are reviewed to detect abnormal fuel usage. The most significant risk relates to fuel purchases from retail outlets which are more difficult to monitor.

**Recommendation 8.12**

**We recommend that SRSB strengthen its procedures for monitoring fuel consumption and use.**

**8.64** Transportation Committee - An ad hoc Transportation Committee has been established by the SRSB to study and make recommendations concerning extra curricular and co-curricular activities, standards, policies and procedures, fleet management, fleet maintenance and operations, routing practices and procedures and cooperation between school boards. A final report is to be presented to the SRSB in June 2006.

## CONCLUDING REMARKS

**8.65** Overall, we concluded that most areas we examined were governed and managed appropriately. Management is providing appropriate information to the Strait Regional School Board to fulfill its stewardship responsibilities although improvements can be made with respect to formally documenting some important information. We believe that important governance responsibilities

such as monitoring of organizational goals and priorities and evaluation of the Superintendent's performance are not receiving a sufficient amount of focus by the Board.

**8.66** In 2004-05, expenditures devoted to transportation represented 8.4% of total SRSB expenditures. The significance of transportation costs leads to the requirement to manage them with due regard for economy and efficiency. We made several suggestions for improvement. Management of the student transportation system at the SRSB is complex and includes requirements to adhere to several different pieces of legislation. Our audit identified areas of non-compliance with certain legislative requirements which need to be addressed.

**8.67** We understand that the rural nature of the SRSB poses significant challenges to management and, in some cases, provides limited options for possible alternatives to current practices. We believe that opportunities exist for possible cost savings in such areas as fuel purchases from Department of Transportation and Public Works depots. Potential savings warrant more detailed analysis by management. We also noted the need for better monitoring of fuel consumption and use to help ensure that such an expensive commodity is used appropriately and efficiently.

Exhibit 8.1

## Strait Regional School Board
## Operations Division - Organization Chart

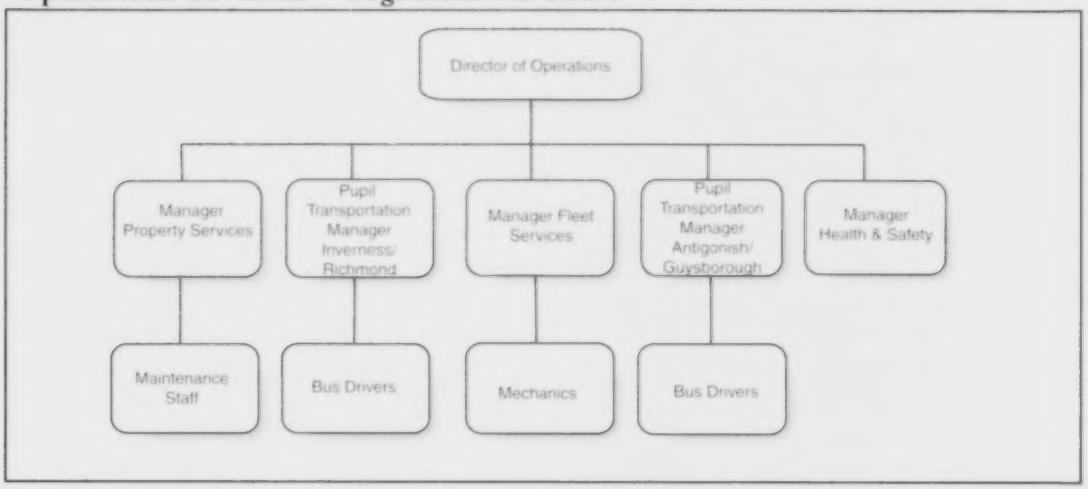
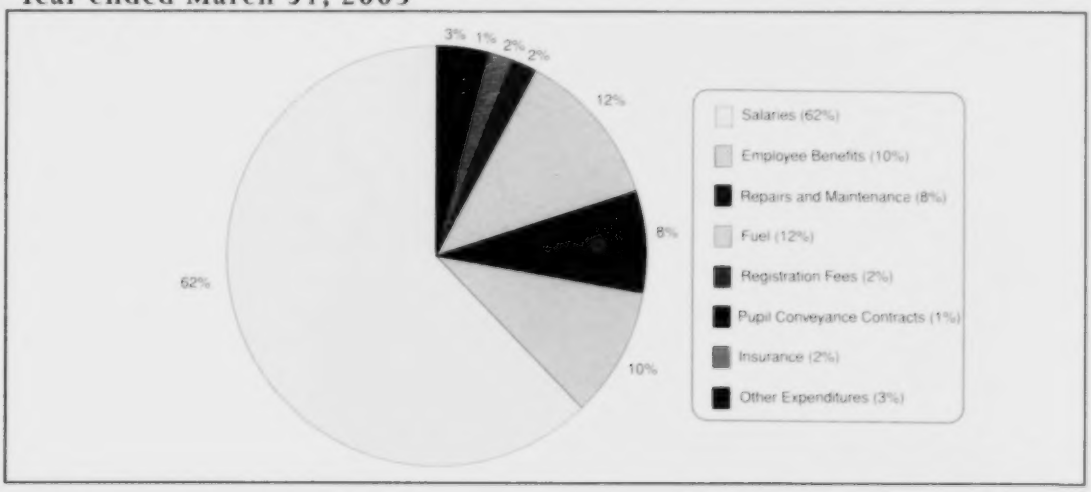



Exhibit 8.2

## Pupil Conveyance Expenditures
## Year ended March 31, 2005




Note: Expenditures for the year totalled $6,051,001

Source: March 31, 2005 SRSB audited financial statements

## Strait Regional School Board - Key Statistical Information
## 2004-05 School Year

Exhibit 8.3

| | |
|---|---|
| Number of schools | 27 |
| Number of students enrolled | 8,957 |
| Number of students transported | 8,510 |
| Number of school bus routes | 183 |
| Number of regular buses | 137 |
| Number of spare buses | 20 |
| Number of kilometers traveled | 3,235,571 |
| Number of deadhead kilometers (distance traveled by a bus when no students are being transported) | 849,989 |
| Average loaded kilometer traveled by each bus each day | 93 |
| Average kilometer traveled by each student each day | 70 |
| Number of regular bus drivers | 137 |
| Number of spare bus drivers | 58 |
| Number of mechanics and other support staff | 18 |
| Number of private conveyors | 12 |
| Number of students transported by private conveyors | 30 |

Exhibit 8.4

## Diesel and Gas Purchases
## Years ended March 31, 2005 and 2006

| Diesel | Bulk Purchases | | DTPW Antigonish | | Retail | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 |
| Liters | 318,112 | 498,189 | 230,231 | 230,038 | 535,222 | 348,705 | 1,083,565 | 1,076,932 |
| % Total | 29% | 46% | 21% | 21% | 50% | 33% | 100% | 100% |
| Cost $ | 171,026 | 398,890 | 135,497 | 202,482 | 420,904 | 363,276 | 727,427 | 964,648 |
| % Total | 23% | 41% | 19% | 21% | 58% | 38% | 100% | 100% |
| $/Liter | 0.538 | 0.801 | 0.589 | 0.880 | 0.786 | 1.042 | 0.671 | 0.896 |

| Gas | Bulk Purchases | | DTPW Antigonish | | Retail (2.) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 |
| Liters | – | 60,757 | 10,268 | 4,799 | 148,119 | 48,758 | 158,387 | 114,314 |
| % Total | 0% | 53% | 6% | 4% | 94% | 43% | 100% | 100% |
| Cost $ | – | 62,574 | 7,009 | 4,928 | 85,864 | 44,432 | 92,873 | 111,934 |
| % Total | 0% | 56% | 8% | 4% | 92% | 40% | 100% | 100% |
| $/Liter | – | 1.030 | 0.683 | 1.027 | 0.580 | 0.911 | 0.586 | 0.979 |

Notes: (1.) These figures were provided by SRSB management and are shown before any tax rebate consideration which would be more significant for retail purchases. Total cost shown here will differ from the amount reported in the SRSB audited financial statements.

(2.) Retail purchases of gas in 2006 were made mostly in the early part of the year prior to significant price increases. This resulted in a lower average cost per litre in comparison to purchases in bulk or from DTPW.

## STRAIT REGIONAL SCHOOL BOARD'S RESPONSE

During the last several months, a broad scope audit of the Strait Regional School Board was completed by your Office. On behalf of the Strait Regional School Board and senior management, I would like to thank the staff of the Office of the Auditor General for the professional and thorough manner in which the audit was conducted. We enjoyed the process and found it very beneficial.

Board Members and staff learned a great deal throughout the process and are pleased with the overall progress the School Board has made during the last several years. We will work diligently to implement the recommendations outlined in the final report.

Again, I extend a sincere thanks for the cooperation we received. The Board will continue to work with all its education partners to ensure students in the Strait Region are benefiting from a well-managed and well-governed public school system.

# 9 DISTRICT HEALTH AUTHORITIES - COLCHESTER EAST HANTS, CUMBERLAND & PICTOU COUNTY

## BACKGROUND

**9.1** The Health Authorities Act was proclaimed effective December 21, 2000. It gave the Governor in Council the authority to establish health districts and District Health Authorities (DHAs) to govern them. The basis for the move to District Health Authorities was the 1999 *Report of the Task Force on Regionalized Health Care*.

**9.2** Nine health authorities were established, effective January 1, 2001, under the District Health Authorities General Regulations, to replace the previous four Regional Health Boards and three Non-designated Organizations. Three health authorities were established from the former Northern Regional Health Board:

- Colchester East Hants Health Authority (CEHHA) - Operates several health care facilities and programs including Colchester Regional Hospital (CRH), Lillian Fraser Memorial Hospital (LFMH), mental health, public health, addictions and related services. Received grants of $47.0 million from the Department of Health in 2004-05, and incurred a deficit of $.1 million from operations.

  Since the fall of 2001 the CEHHA has been working to ensure adequate physical resources are available to deliver effective care to the people of the District. A Master Program / Master Plan for the Colchester Regional Hospital was approved by the Department of Health in 2003. In 2004 a site for a new facility to replace the existing hospital was announced. Order in Council 2005-401, dated September 9, 2005, approved the Department's 75% ($78 million) share of the cost of the project. This approval will allow the CEHHA to move to the next stage of planning - tendering for architectural design. The new facility is expected to be completed in 2010.

- Cumberland Health Authority (CHA) - Operates several health care facilities and programs including Cumberland Regional Health Care Centre, South Cumberland Community Care Centre, North Cumberland Memorial Hospital, All Saints Springhill Hospital, Bayview Memorial Hospital, mental health, public health, addictions and related services. Received grants of $36.6 million from the Department of Health in 2004-05 and incurred a deficit of $1.1 million from operations.

- Pictou County Health Authority (PCHA) - Operates several health care facilities and programs including Aberdeen Regional Hospital, Sutherland Harris Memorial Hospital, mental health, public health, addictions and related services. Received grants of $46.7 million from the Department of Health in 2004-05, and incurred a deficit of $1.2 million from operations.

**9.3** The deficit figures noted above were taken from the DHAs' audited financial statements for 2004-05. It is important to note that the District Health Authorities

and the Department of Health (DOH) may continue to negotiate funding after the fiscal year has ended. The annual deficits recorded on the financial statements are calculated at a point in time and may actually be reduced if the DHAs are successful in their attempts to have the Department of Health fund certain specific items and provide more revenue for the completed fiscal year. For example, after the audited financial statements were released, DOH agreed to fund the 2004-05 deficits noted above.

**9.4** Under the previous organization structure, there had been only one administrative function for the Northern Regional Health Board. The Department of Health directed that the arrangements for finance and payroll, materiel management, information technology and human resources were to be continued under the District Health Authorities and that no changes were to be made without DOH approval. The three DHAs currently have shared services agreements in place, effective April 1, 2004, which expire March 31, 2007. Human resource services are based in Colchester East Hants. Materiel management is managed from Pictou County and information technology services are managed from Colchester East Hants.

**9.5** The Department of Health agreed to recent changes to the shared financial services. Finance and payroll services have separated into three separate departments, one for each DHA, reporting to a Director of Financial Services at each DHA. The Directors of Financial Services report to the respective Vice Presidents of Operations. The computerized financial and payroll system had been centralized but is now being transferred to the three DHAs.

**9.6** Two of the three DHAs projected operating deficits in the range of $1 million for fiscal 2003-04. Government determined that an independent assessment should be undertaken to determine whether the organizations were performing as well as should be expected and whether there was an opportunity for improved financial performance. A consultant completed value for money assessments of Colchester East Hants and Pictou County Health Authorities and released reports in February 2004 (see http://www.gov.ns.ca/health/downloads/CEHHA%20final%20report.pdf and http://www.gov.ns.ca/health/downloads/PCHA%20final%20report.pdf). The following quotes from these reports summarize the basic conclusions:

> *"Overall, CEHHA [Colchester East Hants Health Authority] is performing very well in comparison with its peers and uses its resources wisely. It appears to be underfunded relative to its peers and has been unable to develop significant new programs to meet identified needs."* (*Value for Money Assessment Colchester East Hants Health Authority*, Virginia MacDonald and Associates Limited, February 2004, page 6)

> *"The overall performance of DHA 6 [Pictou County Health Authority] is about in the middle of the seven DHA's compared. However, a better understanding of the true cost of services provided to non DHA 6 residents would likely result in a higher ranking for this district. Overall, the organization appears to be well managed and addressing issues proactively. Some improvements are required in reporting of workload and costs and there may be opportunities for improvements in laboratory, food service, ER and OR costs. When*

*more accurate information is available a follow up review should be undertaken." (Value for Money Assessment Pictou County Health Authority*, Virginia MacDonald and Associates Limited, February 2004, page 9)

**9.7** In 2005, the Department of Health engaged another consulting firm to conduct an operational review of PCHA to identify improvement opportunities. The report was submitted in February 2006.

**9.8** The District Health Authorities are accredited by the Canadian Council on Health Services Accreditation (CCHSA) which performed accreditation surveys of all three DHAs in February 2005. Colchester East Hants and Cumberland were granted *Accreditation with Condition: Report*, while Pictou County was granted *Accreditation with Condition: Focused Visit*. The accreditation results indicate that the CCHSA identified issues which will need to be followed up by submission of a report or an accreditation visit in 12 months.

**9.9** This was our first audit of these three DHAs. We audited the predecessor Northern Regional Health Board in 1999.

## RESULTS IN BRIEF

**9.10** The following are the principal observations from this audit.

- The District Health Authorities have adequate financial management processes at the management and Board levels, although we did recommend certain improvements.
- The Department of Health should approve DHA business plans and funding levels on a more timely basis as required by the Health Authorities Act. We support the Department's efforts to redesign the business planning and DHA funding processes to achieve more timely approval for the 2006-07 fiscal year.
- CEHHA should improve its systems for reporting and monitoring nursing overtime. We did not audit these systems at the other two DHAs.
- The DHAs should improve policies related to travel claims.
- The DHAs should improve compliance with procurement policies for the acquisition of professional services which fall below the thresholds where public tendering is required.

## AUDIT SCOPE

**9.11** The objectives of this audit, at all three DHAs, were to:

- review and assess financial management including business planning,

budgeting, financial reporting and monitoring at the management and Board levels;

- follow up on progress in addressing the recommendations of prior reports by consultants and external auditors relating to financial management;

- obtain an electronic copy of the DHAs' general ledger transactions for 2004-05, analyze transactions in the areas of travel and professional services, and obtain explanations for any identified anomalies;

- test a sample of transactions for compliance with policies; and

- review the most recent results of accreditation reviews by the Canadian Council on Health Services Accreditation and any follow-up action taken.

**9.12** In addition, at Colchester East Hants Health Authority only, we reviewed policies governing nursing overtime, and analyzed a sample of overtime payments for compliance and due regard for economy and efficiency.

**9.13** Audit criteria were taken from recognized sources including the Canadian Council on Health Services Accreditation's *Standards for Leadership and Partnerships* and *Human Resources*, the Health Authorities Act, the Provincial Finance Act and the Office of the Auditor General of Canada's *Financial Management Capability Model*.

**9.14** We visited each of the three District Health Authorities in the fall of 2005 and conducted audit work on site. We interviewed members of management and staff and reviewed minutes of Board and Finance Committee meetings as well as various documents including accreditation reports. We reviewed reports from external consultants and auditors, and examined their files where necessary. We obtained electronic copies of the general ledger databases of each District Health Authority, and used data extraction software to perform required analysis and draw a sample of transactions for further testing.

## PRINCIPAL FINDINGS

### Strategic Planning

**9.15** The purpose of a strategic plan is to set out an organization's priorities and long-term direction. A business plan annualizes and provides detail of the more specific goals, priorities, resource requirements and activities to be undertaken to support the achievement of the strategic plan.

**9.16** All three DHAs have prepared strategic plans which include a vision, mission, values and strategic directions. Goals and objectives were also developed for the strategic directions. The preparation of the strategic plans was a collaborative effort with the Nova Scotia Association of Health Organizations (NSAHO) and external facilitators and included input from the DHA Board members, community health board members, staff and external stakeholders.

**9.17** Colchester East Hants released its revised strategic plan in early 2004 and the latest status report on implementation was presented to the Board in May 2004. Cumberland released its strategic plan in June 2004 and has not formally updated the Board on the status of implementation but has plans to do so. Pictou presented a status report on implementation to the Board in June 2004. There has been no external reporting on the status of implementation of the strategic plans.

**9.18** The DHAs have adopted a continuous quality improvement process. The process includes the development of goals, objectives, operational plans and performance indicators at the program, departmental, divisional and overall DHA level. It is through this process that linkages from strategic plans to annual plans will be developed and reported. We encourage the DHAs to continue to implement this process.

## Business Planning

**9.19** The Health Authorities Act requires the DHAs to prepare a yearly business plan (including a budget) for submission to the Department of Health. The Department is required to provide comments on the business plans submitted within 30 days of receipt. The DHAs are required to submit revised business plans 30 days after comments have been received from the Department. Final business plans must receive Governor in Council approval; however, the Act does not specify the date by which Governor in Council approval must be received. If Governor in Council approval has not been obtained, Section 59(4) of the Health Authorities Act indicates that a DHA can only spend up to one-half of the total operating expenditures in the previous fiscal year. This limit has been exceeded where there has been a delay in the approval of business plans.

**9.20** In November 2004, the Department of Health issued a *Guide for Health Services Business Plan and Budget Submissions 2005-2006*. This document specified

- the format of the business plan,
- the financial templates to be submitted to the Department, and
- the assumptions to be followed in preparing the budgets.

**9.21** Multi-year funding targets - As part of the 2003 budget instructions to the DHAs, DOH advised that the Province had agreed to multi-year budget funding levels for the next three years. This responded to our long-standing recommendation that DHAs be informed of funding for a longer period of time to enable better planning. Preliminary funding targets for 2005-06 were again confirmed shortly before the initial business plans were required to be submitted in December 2004. The DHAs had been advised to prepare their annual business plans on a status quo basis; that is, no new or expanded programs were to be undertaken without DOH's approval and no additional staff was to be employed.

**9.22** In paragraph 9.2 we noted that the three DHAs had a combined deficit of $2.4 million for the fiscal year ended March 31, 2005. These deficits would have been higher if the Department had not provided additional funding after the business

plans were approved. In other words, DHA expenditures have been growing at a faster rate than the multi-year funding targets.

**9.23** Operating deficits - Section 31(1) of the Health Authorities Act does not permit the DHAs to incur deficits. If a DHA is projecting a budgetary deficit, strategies to mitigate the deficit must be documented in the business plan. All mitigation strategies are to be reviewed and approved by DOH staff. We acknowledge that if DHAs are to maintain current programs, services and employment levels, the mitigation options available to the DHAs are limited.

**9.24** In the 2002-03 fiscal year, the Department informed the DHAs that deficits incurred during that fiscal year would not be funded, any deficits incurred would be carried forward and included as the first cost of the ensuing fiscal year budget.

**9.25** Lack of approval of 2005-06 business plans - The DHAs submitted 2005-06 business plans to the Department at the times required. Business plans and budgets were continually updated throughout 2005 and 2006 by the DHAs in response to comments and funding updates from the Department. The last budget submitted by Cumberland Health Authority for the 2005-2006 fiscal year was balanced because of additional funding for expanded operations, and required no mitigation strategies to be developed. The last budgets submitted by Colchester East Hants and Pictou County Health Authorities for the 2005-2006 fiscal year included mitigation strategies and were balanced

**9.26** DOH and Executive Council approved the 2005-06 business plans for most DHAs in November 2005 - eight months into the fiscal year. Business plans for CEHHA and CHA received Executive Council approval in February 2006, and the PCHA business plan for 2005-06 was not approved until May 2006 – after the fiscal year was complete. Changes in PCHA senior management during 2005-06 may have contributed to the delay.

**9.27** Business plans and funding levels should be confirmed by DOH prior to commencement of the fiscal year to ensure that business plan activities and any savings related to the mitigation strategies are achieved. The June 2004 Report of the Auditor General (page 67, paragraph 6.21) noted a similar situation for the 2003-04 fiscal year.

**9.28** We acknowledge that the Department is not able to complete the business plan approval process until it is aware of its funding level as approved through the Estimates process which, for the 2005-06 fiscal year, did not occur until mid-May 2005. However, this should not lead to a delay of several months in approving business plans. Meanwhile, the DHAs are left with a great deal of uncertainty trying to develop mitigation strategies that will result in a balanced budget.

**9.29** The DHAs receive the majority of their funding from the Department of Health through the business planning process. Operating funding is generally unrestricted (i.e., transferable between programs and capital) although there are some restricted (i.e., non-transferable) areas. To enable appropriate financial management, funding

approval should be received prior to the start of the fiscal year. This would allow the DHAs to assess planned expenses and available revenues before any funds are expended. Mitigation strategies required to achieve a break-even budget could then be implemented at the beginning of the fiscal year. Further, the Boards could then approve final budgets in a timely manner.

**Recommendation 9.1 (repeated from June 2004 Report)**

**We recommend that business plans should receive Governor in Council and Department of Health approval prior to commencement of the fiscal year.**

**9.30** DOH's plans for 2006-07 business planning - DOH has redesigned the business planning process and timetable for the 2006-07 fiscal year, see Exhibit 9.1. The timetable calls for the Department and Executive Council to complete discussions by January 31st and the DHA business plans to be approved by the Department by February 15th. The revised timetable and process have been approved by Treasury and Policy Board. We support the Department in its efforts to redesign the process and timetable to achieve more timely approval of DHA business plans in the future.

## Funding Formula

**9.31** While it is beyond the scope of this audit to comment on the adequacy of DHA funding from the Department of Health, we wish to highlight the need for a funding formula to rationalize funding allocations. A funding formula should also help the Department make its annual funding decisions on a timely basis. In our 2002 Report, we recommended that management of the Department establish a project plan to develop a funding formula. In 2005 we followed up on progress in addressing this recommendation. Chapter 5 of our December 2005 Report noted that the Department had made no progress to date; however, the Department indicated that it planned to take action in the future. Consultants have also made this recommendation (see paragraph 9.54 below).

**Recommendation 9.2 (repeated from 2002 Report)**

**We recommend that the Department of Health establish and implement a funding formula to rationalize funding allocations to DHAs.**

## Budgeting

**9.32** As part of the business planning process, the DHAs prepare an annual budget. The budget establishes an annual plan for allocation of resources to accomplish goals and objectives stated in the business plan.

**9.33** There are a range of possible approaches to preparation of a budget which may be appropriate in different circumstances including zero-based budgeting, line-item

budgeting, incremental budgeting, status quo budgeting, target-driven budgeting, performance budgeting or program budgeting. (See paragraph 3.10 of the 2001 Report of the Auditor General for an explanation of these approaches.) The current budgeting process has elements of several of the approaches but it is primarily target-driven and based on the status quo.

**9.34** Budgeting for operating expenditures - The budget processes are initiated and led by the Senior Leadership Team (SLT) at each DHA. Budget managers in conjunction with Finance Division staff prepare the budget. The Finance Department, SLT and the Audit and Finance Committee review and challenge the budget. Once satisfied, the Audit and Finance Committee recommends the budget to the Board for acceptance. We reviewed the system to prepare the operating budgets and concluded that the DHAs have implemented reasonable processes.

**9.35** At all three DHAs, we were informed that Finance staff ensured mathematical accuracy of the budget and the supporting spreadsheets, and the accuracy of the entry of budget information into the financial systems. Documentation of these quality control procedures should include formal sign off as evidence that the procedure was performed. No formal sign off was occurring at the DHAs.

**9.36** Members of the SLT review the budgets for their areas of responsibility. In addition, the overall budgets are discussed at senior management meetings. Although some reports are prepared, the review and challenge process was not well documented. Documentation is important to ensure decisions are recorded for future reference.

**9.37** The Finance Committee and the Board were fully informed of the business planning activities and funding requirements. The Finance Committee at Colchester received a written overview of the budget as well as a summary of changes made to the budget when it was subsequently revised. We suggest this type of information should also be provided to the Finance Committee of the other two DHAs.

**9.38** Budgeting for capital equipment - The Department of Health does not allocate funding between operating and capital. The DHAs receive operating grants and can decide to spend a portion of this on capital. DOH does not approve capital purchases other than major projects which are specifically funded.

**9.39** We reviewed the yearly prioritization process for capital equipment purchases and concluded that the DHAs have appropriate processes. All DHAs have policies concerning the budgeting of capital assets over $5,000. Capital equipment request forms are completed, reviewed and prioritized by inter-department committees. We noted that prioritization of these requests is based upon various factors such as medical necessity, risk, safety and the condition of existing equipment. The prioritized lists are reviewed and recommended for approval by the Senior Leadership Teams and the Finance Committee of the Board.

**9.40** As part of the business planning process, the DHAs were requested to submit three proposals for capital equipment purchases that would be considered for Federal

Medical Equipment funding by DOH. The DHAs submitted the required funding proposals. The Department approved the proposals submitted and provided the following funding:

- CEHHA - $650,000
- CHA - $705,000
- PCHA - $296,000

## Monitoring and Forecasting

**9.41** A sound financial monitoring process depends upon appropriate policies and procedures. Timely reporting of issues is necessary for appropriate corrective action and should start early in the year.

**9.42** Although the DHAs have appropriate monitoring and forecasting processes in place, only Colchester East Hants has formally documented its policies to govern the monitoring and forecasting function. Written policies should include clear definition of financial reporting formats; timing and approval requirements; definition of thresholds for when variances require explanation; and requirements for forecasting.

**9.43** Monitoring and forecasting at Colchester East Hants and Pictou begins once the June or July actual financial results are available. The monitoring and forecasting process at Cumberland is not timely as it has not commenced until eight months into the fiscal year. Management indicated that there are plans to provide the monitoring and forecasting on a more timely basis.

**9.44** Colchester East Hants prepares written explanations for the variances between the yearly budgets and forecast. Cumberland and Pictou provide written explanations of variances between the year-to-date budget and actual. Only Colchester has a written policy specifying the threshold amount for variances which must be explained. Finance staff at Cumberland and Pictou advise SLT as well as the Audit and Finance Committee of the projected surplus/deficit to year-end. However, the forecast should be formal and show a comparison of the yearly budget to the projected forecast.

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**Recommendation 9.3**

**We recommend that CHA and PCHA develop written policies and procedures requiring periodic monitoring and forecasting.**

**We also recommend that CHA and PCHA financial reports be modified to include a comparison between the budget for the year and a current forecast of results to year end, and written analysis of variances.**

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## Governance - Finance Committee

**9.45** There are no professional accountants on the Finance Committees of the DHAs. We believe that Finance Committees of the DHAs should include at least one person with a professional accounting designation and/or extensive financial management experience (for example, a bank manager) to ensure that the Finance Committees have a sound grasp of financial management and reporting issues. This is especially important in the current fiscal environment where DHAs are experiencing financial difficulties and there is increasing attention to the stewardship roles of Audit and Finance Committees.

**Recommendation 9.4**

**We recommend that the Finance/Audit Committee for each DHA include at least one professional accountant or person with recognized financial expertise.**

## Shared Services

**9.46** When the DHAs were formed, the Department of Health directed that the arrangements for finance and payroll, materiel management, information technology and human resources were to be continued as shared services and that no changes were to be made without DOH approval. Three-year agreements were put in place and renewed again in 2004 for a further three years. While responsibilities were clearly established, service performance standards were not defined.

**9.47** Due to dissatisfaction with the services and staffing difficulties, the parties recently mutually agreed to discontinue finance and payroll as a shared service. There were also concerns with access to the computerized financial system. Because of the way the system was configured, access was limited to one DHA at a time. DOH agreed with the separation of the financial services because of the planned migration of all DHAs to the SAP financial system in the future. DOH directed that there was to be no additional operating costs associated with the overall financial restructuring. Two of the three DHAs have established their own finance and payroll divisions and the third DHA is in the process of completing its restructuring. Current cost estimates prepared by DHA management indicate that there has been no increase in costs. Human resources, information technology and materiels management are still in place on a shared services basis.

**9.48** We note that there are still no performance standards under the new, decentralized arrangement. Performance standards and reporting on achievement are required for appropriate management of all services, regardless of whether they are shared.

**Recommendation 9.5**

We recommend performance standards be included in the agreements for all shared services. Performance standards and reporting on achievement should also be required for financial services divisions.

## Financial Statement Audits

**9.49** The annual financial statements of the DHAs are audited by public accounting firms. The external auditors prepare a management letter at the conclusion of their audits. The auditors formally present the audited financial statements and management letter to the Finance Committees of the Boards.

**9.50** We reviewed the external auditors' working papers for the year ended March 31, 2005 and management letters for the years ended March 31, 2004 and 2005 and noted the following two significant matters.

- The auditors noted the need for a capital asset management system to record information on all assets owned by the DHAs. The DHAs indicated they have plans to establish such a system.

- In the March 31, 2004 management letters, the auditors noted that there were a number of issues related to access rights of employees using the various computerized information systems, including accountability, responsibility and restrictions on the rights of users. Appropriate processes and procedures are critical to ensure that only authorized users have access to the computer systems required to perform their jobs. Management indicated that draft security policies have been developed and access rights have been established for various information systems.

## External Consultants

**9.51** The Department of Health and the DHAs have engaged consultants to review selected operations. The following paragraphs provide information on certain reviews conducted by these consultants.

**9.52** Information technology security - An external consultant was hired to perform a security assessment of the information and communications systems in use at the three DHAs. The consultant's April 2005 report made a number of recommendations in areas such as business continuity and backups, security of computer systems, network infrastructure, policies and standards and security of laptop computers. In September 2005, Information Technology completed a plan to address these recommendations. As of March 2006, management indicated that many of these recommendations have been implemented.

**Recommendation 9.6**

**We recommend the DHAs address the recommendations made by the external auditors and the external consultant concerning information systems security.**

**9.53** Value-for-money assessments - As noted in paragraph 9.6, in collaboration with the Districts, the Department of Health engaged consultants to conduct value-for-money assessments at Colchester East Hants and Pictou County in the fall of 2003. The external consultants made a number of recommendations in the reports released in February 2004. Some of the recommendations made were specific to these DHAs and other recommendations required action by the Department of Health.

**9.54** One of the recommendations made by the consultants who reviewed CEHHA was that *"The DOH should proceed to develop a funding formula which will promote fair, equitable and transparent funding allocation to all districts."* (*Value for Money Assessment Colchester East Hants Health Authority*, Virginia MacDonald and Associates Limited, February 2004, page 6). This is consistent with our Recommendation 9.2 above.

**9.55** Other significant recommendations made in the CEHHA and PCHA 2004 assessment reports included the need to:

- develop standardized reporting and benchmarks to facilitate comparisons of performance and to facilitate inter DHA comparisons;
- develop decision support resources including software and personnel to improve the accuracy and usefulness of the various databases; and
- review continuing care services provided in the districts.

**9.56** Capital District Health Authority and the IWK Health Centre engaged another firm of consultants to complete operational reviews in 2003-04. Using the same consultants, the Department also conducted a review of PCHA in 2005. The final report, released in February 2006, included a number of recommendations and identified potential savings of $1.75 million. PCHA has established a committee to address all of the recommendations from these external reports. Implementation of certain recommendations has been deferred pending completion of the Province-wide review currently underway which is discussed below.

**9.57** Senior management of the Department, in conjunction with the Council of CEOs (all DHAs), decided the scope of the consultants' operational review work should be expanded to include all DHAs. A request for proposal process was completed in mid-March 2006, and the Department engaged the firm of consultants referred to in paragraph 9.56. The two DHA reviews completed earlier (IWK and Capital Health) will not be repeated but revisited to include the additional scope areas to ensure consistency. The remaining reviews are scheduled for completion during the 2006-07 fiscal year.

**9.58** Equipment reprocessing - Effective equipment decontamination processes are critical to the safe delivery of hospital services such as surgery.

**9.59** In 2004, there were three incidents at CEHHA which highlighted the need for a focused review of the reprocessing of instruments. External consultants were requested to complete a risk assessment and review the equipment reprocessing at Colchester East Hants.

**9.60** The January 2005 review report identified a number of risk areas in equipment reprocessing at Colchester-East Hants and made recommendations for improvement. Management indicated that a reprocessing working group was established in March 2005 and that it has actively been addressing and implementing the recommendations made including review of policies and procedures. Management provided us with details of several significant changes made including the replacement of a sterilization unit and purchase of additional instruments and indicated that the infection rate is considerably below accepted standards.

## Accreditation

**9.61** As noted in paragraph 9.8, the Canadian Council on Health Services Accreditation (CCHSA) conducts an accreditation review on the DHAs every three years. In February 2005, the three DHAs were reviewed. Colchester East Hants and Cumberland Health Authorities were granted *Accreditation with Condition: Report* while Pictou County was granted *Accreditation with Condition: Focused Visit*.

**9.62** The accreditation reports contained 33 recommendations for Cumberland, 30 recommendations for Colchester East Hants, and 21 recommendations for Pictou. The CCHSA will re-visit Pictou in 12 months to determine progress in addressing certain significant recommendations. The other two DHAs are required to file reports within 12 months on progress in addressing the more significant recommendations. The DHAs plan to address all recommendations made in these reports through quality management processes. CCHSA will follow up on the implementation of all recommendations during the next accreditation survey in three years.

## Compliance with Policies

**9.63** Our objectives in this section of the audit were to analyze certain aspects of the data in the DHAs' computerized financial information systems to determine whether there were any potential anomalies, obtain explanations and test certain transactions for compliance with policies. We downloaded the electronic databases and used data extraction and analysis software. We specifically identified travel expenses and professional fees, for each of the DHAs, and nursing overtime at Colchester East Hants as areas of focus.

**9.64** Travel - Travel expenses for the three DHAs totaled $1.3 million for the 2004-2005 fiscal year.

**9.65** We reviewed the travel policies in all three DHAs and concluded the policies should be strengthened to reduce risk of inappropriate expenditures. For example,

policies do not specifically require submission of original supporting invoices rather than signed credit card vouchers; the identification of persons attending hospitality meals claimed; and review and approval of travel expenses of the Chief Executive Officer (CEO) by the Board Chair.

**9.66** We tested a sample of 79 travel claims, totaling $106,700, submitted by the CEOs, physicians and other staff, for compliance with travel policies and adequate controls. Our findings are summarized below. Note that not all findings applied to all three DHAs; some applied to only one, some applied to two and some applied to all three.

- Some CEO travel claims were not approved by the Chair of the Board.
- A number of claims were filed without original receipts but rather with credit card statements.
- Some CEO travel claims included other expenditures which should have been processed through the accounts payable system because they were not travel expenses (e.g., purchase of a fax machine, relocation expenses for physicians).
- CEOs were not always using standard travel expense claim forms.
- The rationale and recipients for expenses related to hospitality hosted by CEOs were not always described.
- Travel expenses of locum physicians were sometimes prepared and approved by the Chief of Medical Staff and not signed by the physician.

**9.67** Lack of independent review and approval of expense claims increases the risk of claims for unauthorized travel and non-compliance with policies.

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**Recommendation 9.7**

**We recommend that DHAs clarify and strengthen travel policies by requiring:**

- **submission of original supporting invoices rather than signed credit card vouchers;**
- **identification of the people for whom meals are claimed;**
- **review and approval of CEOs' travel expenses by the Chair of the Board; and**
- **signature of the claimant on all travel claim forms.**

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**9.68** Professional fees - Procurement activities are governed by Nova Scotia's Government Procurement Process ASH Sector (ASH Sector Policy) and the Government Purchases Act. The policy applies to Provincially-funded public sector entities such as academic institutions, school boards and health authorities (the ASH sector) and crown corporations. The Policy, which was revised in May 2004, provides guidelines for procurement in various situations including

tendering, sole sourcing, and alternative procurement practices. The objective of the policy statement is to establish and maintain a high level of confidence in the procurement process by ensuring that procurement is carried out in an open, fair, consistent, efficient, and competitive manner.

**9.69** Specifically, the ASH Sector Policy states:

- *"The ASH sector follows the Government of Nova Scotia Procurement Policy and agrees that all procurement processes and practices are to be open, fair, and subject to the policy objectives laid out in the Procurement Policy....*
- *ASH sector entities utilize their existing procurement practices and processes for the acquisition of goods valued at less than $25,000, services valued at less than $50,000 and construction valued at less than $100,000. To the degree these practices and processes are not consistent with the policy objectives of the Procurement Policy, they are to be modified by the ASH sector entity to make them compatible.*
- *For acquisition of goods valued at $25,000 or greater, services valued at $50,000 or greater, or construction valued at $100,000 or greater, ASH sector entities will, if needed, modify their own procurement practices and processes so they fully comply with the obligations identified in the Atlantic Procurement Agreement and the Agreement on Internal Trade....*
- *ASH sector entities are expected to maintain appropriate records to support procurement transactions available for audit..."*

**9.70** Professional fees paid by the DHAs totaled $1.2 million for the 2004-05 fiscal year. We tested a sample of 59 payments for professional services totaling approximately $280,000 for the three DHAs and found that the procurement policies were not being applied consistently for acquisition of professional services below the thresholds in the ASH Sector Policy. We found a few instances at each DHA where professional services, such as legal, audit and consulting services, had not been awarded through a competitive process. Although management was able to respond verbally when we asked for reasons why the contract awards were not subject to competition, there was no approved, written documentation of reasons for exemptions from the policy. In such cases, senior management should officially approve exceptions to the policy and require that documentation be prepared.

**Recommendation 9.8**

**We recommend compliance with the requirements of the ASH Sector Procurement Policy including competitive processes for all procurements. All exemptions should be appropriately approved and documented.**

## Nursing Overtime

**9.71** At Colchester East Hants, we reviewed policies governing nursing overtime, and analyzed a sample of overtime payments for compliance and due regard for

economy and efficiency. Exhibit 9.2 reflects the overtime by DHA for the 2004-05 fiscal year, in total and for nursing.

**9.72** The Colchester East Hants Health Authority (CEHHA) has approximately 352 Registered Nurses (RNs) and Licensed Practical Nurses (LPNs). Exhibit 9.3 reflects the nursing overtime paid at CEHHA for fiscal years 2002 through 2005. Overtime rates are governed by the terms and conditions of the collective agreements between the DHAs and the nurses' union, which represents both RNs and LPNs. The negotiated rate of pay for overtime varies from 1.5 (where more than 48 hours notice is given) to 2 times the hourly rate paid to the RN and LPN. Recent contract negotiations resulted in more overtime qualifying for payment at double time rates. We acknowledge shortages in the availability of nurses in the Province places additional demands on the current nursing workforce and difficulties in finding replacements.

**9.73** Exhibit 9.4 shows the distribution of overtime hours worked for fiscal 2004-05 by the number of nursing staff. On average, approximately 75% of the nursing staff worked less than one day of overtime per month.

**9.74** Exhibit 9.5 shows the distribution of overtime hours by the rate paid. The majority of paid overtime and time in lieu is earned at the double rate. Scheduling staff as far as possible in advance potentially could lead to more overtime at the lower rate and cost savings. Currently, staff scheduling is done manually. The DHAs do not have workload measurement systems. An automated workload measurement and scheduling system could lead to efficiencies in scheduling nurses and has the potential to give staff more notice of required overtime.

**9.75** The Nova Scotia hospital Information System (NShIS – see Chapter 6 of June 2005 Report of the Auditor General) includes a module which addresses some of the Health Authorities' needs in this area. However, this Patient Care System (PCS) module has been implemented in only two DHAs. The Department of Health indicated that the NShIS software is currently being upgraded. Because of the upgrade, implementation of PCS is temporarily delayed. The Department has indicated that a plan for PCS roll-out to the remaining DHAs is being developed.

**9.76** The hospital has processes for planning, scheduling, authorization and payment of overtime at rates in compliance with the union agreements. The authorization forms include categories for the various types of overtime; for example, extra shift, extension of a shift, call back and schedule change. We found the information systems did not adequately capture the cause of the overtime and, therefore, important information was not being collected to facilitate appropriate monitoring of this area. The absence of such information makes it difficult for management to appropriately monitor overtime and take corrective action if required.

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**Recommendation 9.9**

**We recommend implementation of workload measurement systems for better scheduling of**

nursing resources. We also recommend improvement in the information systems relating to the summary reporting of causes for overtime.

**9.77** DHA and DOH management recognize the impact of the high cost of overtime. All recognize that increasing the pool of qualified staff would alleviate the strain. Efforts to recruit staff are ongoing.

## CONCLUDING REMARKS

**9.78** Our audit of financial management indicated that the DHAs utilize reasonable processes for business planning, budgeting and monitoring. However, the timing of approval of business plans and funding levels by the Department of Health needs to be improved. The late approval creates an environment of uncertainty at the DHAs which is not conducive to good financial management and violates the Health Authorities Act.

**9.79** Controls over procurement of professional services and documentation of travel expense claims should be improved to ensure compliance with policies and due regard for economy and efficiency. We also concluded that the reporting and monitoring of nursing overtime needs to be supported by better information systems.

**9.80** We support the Department's efforts to complete value-for-money audits of DHAs on a Province-wide basis as these should provide useful input for benchmarking comparisons and development of a funding formula.

## Business Planning Process for DHAs
## 2005-06 Actual compared to 2006-07 Planned

Exhibit 9.1

| Activity | 2005-2006 Business Plan Deadline | 2006-2007 Business Plan Deadline |
|---|---|---|
| Targets to DHAs | Updated Dec. 2004 | Oct. 14, 2005 |
| Kickoff – Communications to:<br>• CEO's/Board Chairs | Nov. 9, 2004 | Oct. 14, 2005 |
| Status Update – DHA's – Finance<br>• Developments since Oct. – Revamp and tweak if/where necessary | N/A | Nov. 30, 2005 |
| Plan Submissions – By DHA's | Dec. 17, 2004 | Dec. 15, 2005 |
| Plan for Presentation<br>• DHAs – Finance – CEOs – refine mitigations, plans and decide what to take forward | Ongoing throughout 2005 | Jan. 13, 2006 |
| Cabinet Presentation/Discussion<br>• CEOs, SLT | Throughout 2005 | Jan. 31, 2006 |
| Targeted Approval by DOH | - | Feb. 15, 2006 |
| Budget Implementation | Ongoing throughout 2005 | March 31, 2006 |

## Overtime Costs by DHA
## Year ended March 31, 2005

Exhibit 9.2

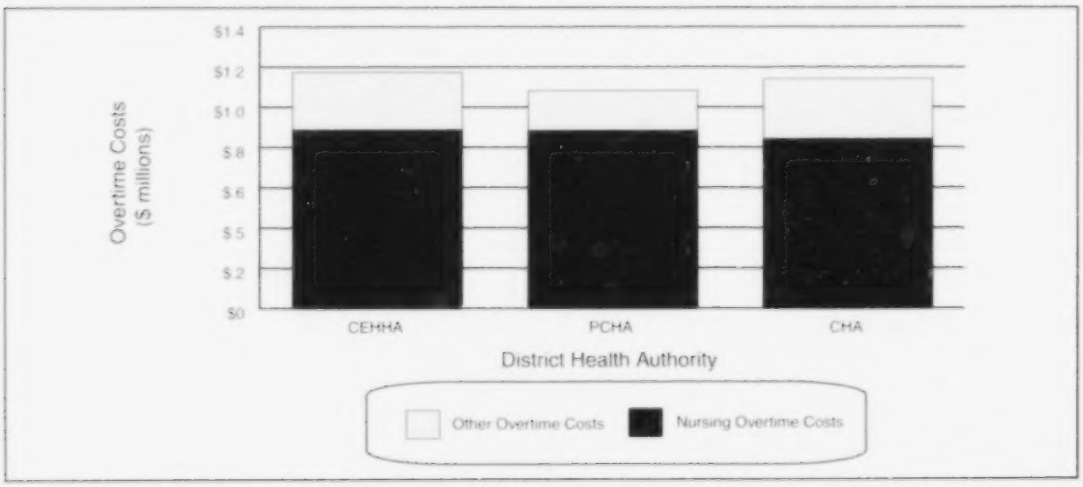


Exhibit 9.3

**Colchester Regional Hospital & Lillian Fraser Memorial Hospital**
**Nursing Overtime**

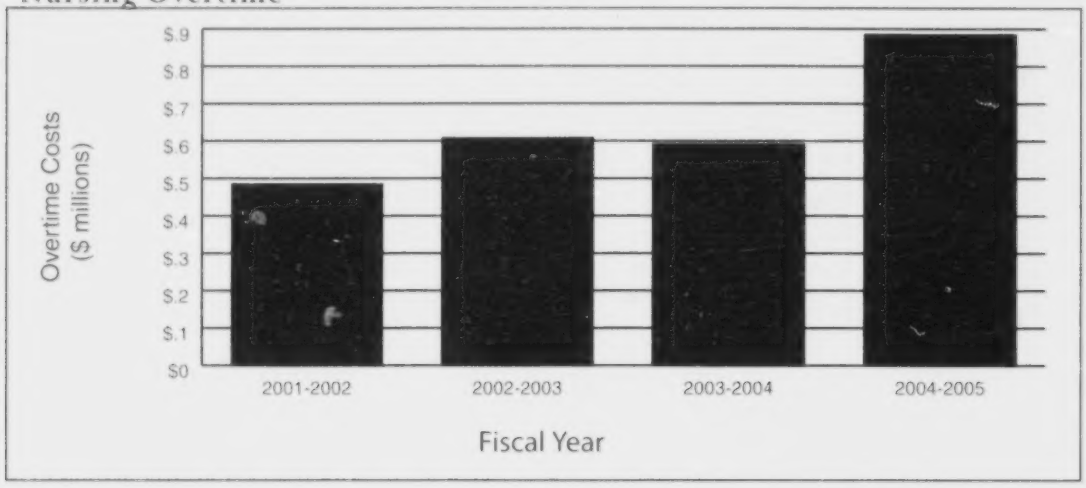
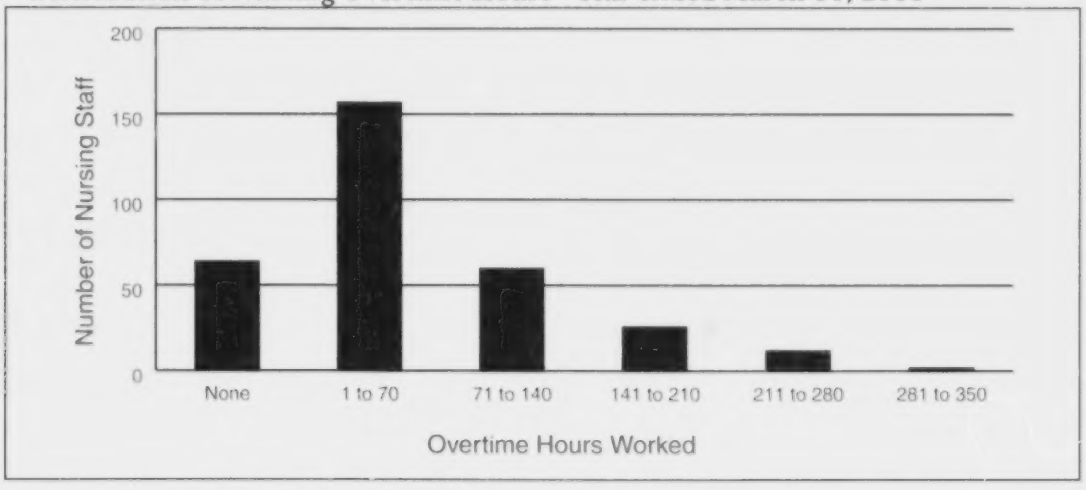


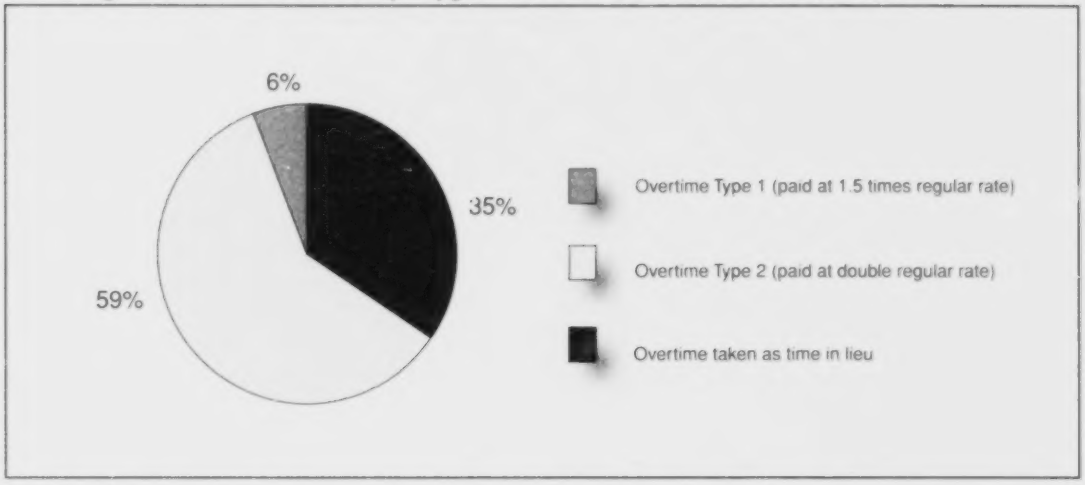

Exhibit 9.4

**Colchester East Hants Health Authority**
**Distribution of Nursing Overtime Hours - Year ended March 31, 2005**



**Colchester East Hants Health Authority**
**Nursing Overtime Hours by Type - Year ended March 31, 2005**

Exhibit 9.5


6%
35%
59%
Overtime Type 1 (paid at 1.5 times regular rate)
Overtime Type 2 (paid at double regular rate)
Overtime taken as time in lieu

## COLCHESTER EAST HANTS HEALTH AUTHORITY'S RESPONSE

I am writing on behalf of the Board and leadership team for Colchester East Hants Health Authority in response to the audit completed by your office for Colchester East Hants Health Authority (completed in April, 2006). Our organization is in agreement with and support the recommendations made within this report and wish to note that as a result we will continue to work with the Department of Health and other health authorities in the development of policy that will ensure the effective management of resources. Wherever possible we will assume a leadership role in such development.

As noted in various sections of the report several of the recommendations from your office have already been acted upon. This activity has resulted from several sources including:

- reports from other audit activity;
- district led quality improvement activity;
- Or as a result of your report's recommendations.

To ensure compliance with all recommendations noted we will be providing regular updates through our Finance Committee and the full Board of Directors for the Health Authority.

Please accept our thanks to you and your staff for the opportunity to participate in this important review.

# 10 PAYMENTS TO PHYSICIANS

## BACKGROUND

**10.1** The Canada Health Act establishes conditions and criteria for insured health services required to be provided by the provinces. In Nova Scotia, the Health Services and Insurance Act governs the provision of insured services. The Act and its related regulations prescribe the insured physician services residents are entitled to receive and the payment plans associated with delivering these services.

**10.2** Insured services under the Medical Services Insurance (MSI) plan are generally defined as services rendered by physicians which are medically required or which are deemed to be medically required. Certain dental-surgical procedures provided in hospitals are also insured. Medically required services are those provided for the purpose of maintaining health, preventing disease or diagnosing or treating injury, illness, or disability. In addition to the basic insured services provided under the MSI plan, the Province also provides limited coverage for vision care to children and seniors, a special dental program for certain client groups, and a children's dental plan.

**10.3** All residents of the Province, with the exception of members of the RCMP or Canadian Armed Forces, NATO employees and inmates in federal penitentiaries are entitled to receive insured services. For the year ended March 31, 2005, Provincial payments for insured medical services and related expenditures totaled $500.5 million (see Exhibit 10.1).

**10.4** The Health Services and Insurance Act gives the Minister of Health responsibility for negotiating payments for physician services. The Nova Scotia Department of Health (DOH) negotiated an agreement with Doctors Nova Scotia (formerly the Medical Society of Nova Scotia) for the period from April 1, 2004 to March 31, 2008. In addition to specifying medical practitioner compensation levels on a fee-for-service basis, the agreement also provides for negotiation of alternate funding arrangements. Compensation for insured dental services is addressed in the Insured Dental Services Tariff Agreement which is effective for the same time period.

**10.5** Approximately 55% of physicians in the Province are paid solely under a traditional fee-for-service arrangement. Certain physicians, primarily specialists, have opted to be paid on an alternate funding basis (entirely fixed fee or a combination of fixed fee and fee-for-service), and therefore do not submit regular fee-for-service claims, but instead are required to submit shadow billings to facilitate monitoring of activity levels. In 2004-05, the Province made payments under alternative funding arrangements totaling $178.2 million. In 1999-2000, when we last audited Alternative Funding, the payments totaled $85.3 million. In the last five years, the cost of alternative funding arrangements more than doubled (see Exhibit 10.1).

**10.6** We audited Physician Alternative Funding Initiatives in 2000 (2000 Report of the Auditor General, Chapter 9) and followed up on our findings in 2003 (2003 Report of the Auditor General, Chapter 10). Our prior reports are available at http://www.gov.ns.ca/audg. In 2000, our major observations were as follows:

- While Alternative Funding Initiatives may have potential benefit to the health care system, conditions giving rise to specific initiatives and the outcomes expected were generally not well articulated.
- There were deficiencies in the systems providing for due regard for economy and efficiency, including infrequent evaluation of outcomes and incomplete shadow billing data on the volumes of services provided.
- There were weaknesses in certain controls over compliance with contracts.

## RESULTS IN BRIEF

**10.7** The following are the principal observations from our 2006 audit.

- The 2005 agreement between the Province and Medavie Inc. for administration of the Medical Services Insurance Plan is a major improvement over the one it replaced. For example, Medavie is now required to provide annual audited financial statements of Medical Services Insurance program costs to the Department of Health. This represents a significant improvement in accountability for this major government program area.
- In April 2006, the Labour Relations Committee of Executive Council accepted the general direction of a new framework for physician alternative funding arrangements proposed by the Department of Health. The proposed framework incorporates improvements in accountability and a blended compensation base including fee-for-service for clinical work and a fixed component for non-clinical activities. Previous alternative funding arrangements generally did not include a significant fee-for-service component. As at the time of writing this Report, no alternative funding agreements had yet been signed under the new framework but negotiations were in progress.
- We examined a sample of existing alternative funding agreements and concluded that there was a general lack of accountability. The deliverables have not been well defined in certain contracts, the contracts generally lack strong reporting requirements and the documentation included in the negotiation files needs to be improved.
- All new and renewed alternative funding contracts must receive Executive Council approval as required under Section 59 of the Provincial Finance Act. The Department was only able to provide such approvals for three of the eleven contracts in our sample. The Department of Health should ensure

that all contracts receive Executive Council approval and documentation of the approvals should be maintained to preserve a trail for management and auditors.

- In 1997, the Department of Health decided to pay physician services claims for patients with expired health cards which compromises the effectiveness of the beneficiary registration process and increases the risk of paying claims related to ineligible patients. In 2003, we recommended that the Department of Health review the risks of accepting expired health cards and implement appropriate controls. No action has been taken on our recommendation.

- We tested the controls surrounding the registration process for providers of health services and found them to be adequate. The Department of Health's written policies governing the provider registration process do not reflect current practices and should be updated.

## AUDIT SCOPE

**10.8** The objectives of this audit were to:

- review the new agreement between the Province and Medavie for administration of the MSI plan;

- assess whether the systems and processes surrounding Alternative Funding Agreements provide for administration of this program area with due regard to economy and efficiency;

- assess compliance with Alternative Funding Agreements and the adequacy of accountability mechanisms and performance measurement;

- review the controls over the beneficiary registration system and assess compliance;

- review the controls over the provider registration system and assess compliance; and

- review the audit planning performed by the Monitoring & Statistics Division of Medavie Inc. related to physician payments and the results of its audit activities.

**10.9** Audit criteria used to assess the subject matter were primarily based on *Principles for Negotiating Alternative Funding Contracts* agreed to by the Department of Health and Doctors Nova Scotia, the Nova Scotia Department of Health's policies and the Canada Health Act.

**10.10** Our audit approach was based on interviews, review of documents, analysis of data and testing of transactions for compliance. We interviewed representatives of the Department of Health and Medavie and examined various alternative funding agreements and other documentation. In addition, we obtained electronic copies

of the individual beneficiary registration database, the provider registry database and the claims database for the 2004-05 fiscal year. We used data extraction software to analyze the data and draw a sample of transactions for further testing. Our audit of controls was limited to controls over the manual processes; we did not review either computer environment or application controls.

## PRINCIPAL FINDINGS

### Contract with Medavie Inc.

**10.11** The Department of Health had an agreement with Medavie Inc. (formerly Atlantic Blue Cross and Maritime Medical Care Inc.) to process and pay physician claims on behalf of the Department. The most recent agreement was signed in 1992 and extended several times. In 2000, the Department served notice to end the contract. DOH engaged external consultants to provide advice on a new contract. The consultants performed a "gap analysis" between DOH's need for a performance-based contract and the existing contract. A new performance-based contract was established effective August 1, 2005 for the period to March 31, 2010 with provisions for renewal to 2015. The new contract is much more comprehensive than the one it replaced and includes various new accountability, service level and performance measurement requirements.

**10.12** Some of the more significant features of the new agreement are as follows:

- DOH provides semi-monthly payments to Medavie for administration of all insured health programs, including both physician services and pharmacare. Payments include a fixed component and a component which varies on the basis of transaction volumes. Total payments for the first year of the contract are estimated to be $10.4 million.

- New information technology systems for the programs will be developed. DOH is committed to pay $15 million over ten years for this purpose.

- The information systems are the property of Medavie but a copy of the source code for the software systems will be placed in escrow to ensure availability to the Province in the event that Medavie ceases to operate.

- The agreement specifies service levels and financial penalties if breached.

- Required reporting from Medavie to DOH is extensive and details are specified in the agreement.

- There is an incentive for Medavie to identify costs savings in program administration. If Medavie identifies such an opportunity, it will share in the resulting savings.

- The Auditor General and the Department of Health have the right to perform audits of the administration of the agreement at Medavie.

- Medavie is obliged to provide copies of its annual audited financial statements to the Department of Health. It is also required to submit separate audited financial statements for the programs administered on behalf of the Province including operating costs and program payments.

**10.13** In 2003, we had recommended that DOH ensure annual audit of medical payments by either the Department of Finance's Corporate Internal Audit group or external auditors. We note that the new agreement addresses our recommendation and is a major improvement in accountability for this significant government program area.

## Alternative Funding Policies and Framework

**10.14** Background – An alternative funding arrangement is intended to provide physicians with flexibility in the delivery of services by funding a range of activities. Depending on whether the contract is academic or non-academic, the services could include:

- clinical services;
- health promotion and disease prevention;
- administrative work;
- teaching; and
- research.

**10.15** There are two types of alternative funding arrangements:

- Alternative Payment Plans (APPs) – Non-academic plans which are focused mainly on clinical outcomes.

- Academic Funding Plans (AFPs) – Academic plans which include academic medical teaching, research and academic leadership in addition to clinical work.

**10.16** Nova Scotia claims to be leading the way with this new approach to compensating doctors. As of November 2005, nearly 45% of Doctors Nova Scotia's membership was remunerated partly or in full through alternative funding arrangements. This amounted to approximately $178 million for 2004-05.

**10.17** There are currently 30 separate alternative funding agreements in place in Nova Scotia. Agreements are made on a group or individual basis. One contract could represent from 1 to 150 or more physicians. Contracts are negotiated based on *Principles for Negotiating Alternative Funding Contracts* drafted by the Department of Health and the Medical Society of Nova Scotia (Doctors Nova Scotia).

**10.18** In the early stages of alternative funding development, there was a prevailing lack of accountability. The *Principles for Negotiating Alternative Funding Contracts* document completed in May 2005 improved on the 1997 version.

**10.19** Policies – DOH's alternative funding policies were approved in late 1999 and have not been followed over the past few years. The policies have not been updated to reflect the new processes followed by the Department or the new framework initiative described in paragraph 10.20 below. Management has indicated that revised policies and a handbook for the AFP/APP programs will be completed as part of the framework project. The Department has not yet established a timeline for policy review. We believe that it is important for the policies to be updated as soon as possible to ensure a consistent approach to alternative funding arrangements.

**Recommendation 10.1**

**We recommend that the Department of Health revise its policies for physician alternative funding arrangements to reflect current practice.**

**10.20** New framework initiative - In 2004 the Department of Health engaged consultants (North South Group Inc.) to complete a review on the alternative funding agreement with the Capital District Health Authority's Department of Medicine, the Province's largest Academic Funding Plan contract. The report was released in February 2005 and included 43 recommendations for improvement to the AFP negotiation process and contract requirements. The full report is available at http://www.gov.ns.ca/health/downloads/Alternate%20Funding%20Audit%202004.pdf

**10.21** The following extract from the Executive Summary of the report (page v) summarizes the consultants' conclusions on previous alternative funding arrangements.

> *"However, the audit did bring to light many important findings. As stated above, benefits of the AFP are noteworthy: the recruitment and retention of specialists in Nova Scotia has been effectively enhanced; the DOM academic program is considered to have been strengthened under the AFP; clinical care is said to be more rational and appropriate, with tertiary and quaternary specialists treating more acute and complex cases; the 16 divisions of the Department of Medicine are considered more viable and sustainable; the AFP has promoted increased multidisciplinary care provided by teams of health professionals, as well as more integration among specialty areas; clinical guidelines, a triage system, and a commitment to more evidence-based care have been developed. Quality of care is considered to have remained high; physicians are engaging in more health promotion and disease prevention; DOM specialists are able to engage in a balance of clinical and academic activities; and the AFP has contributed to a better lifestyle and work life quality for tertiary and quaternary specialists.*
>
> *At the same time, serious weaknesses and challenges associated with the AFP have emerged. Most noteworthy is the lack of an accountability framework against which to measure performance and productivity of AFP-funded physicians. The lack of specific deliverables and performance targets has precluded the capacity of the auditors to measure the economy, efficiency and effectiveness of the AFP system. Furthermore, the lack of a clear determination of the clinical and academic ratio for the AFP physicians impaired the*

*capacity to assess value for money for the health care system, and to draw any meaningful conclusions from the financial audit over the contract term, as compared with similar expenditures under the fee for service system. Clearly, from the cross-Canada comparison undertaken by this study, it is evident that almost all jurisdictions are experiencing similar challenges in the administration of their alternative payment models. The administrative infrastructure to effectively manage AFPs is still evolving, and has not kept pace with the policy decisions of most ministries of health to implement these alternative systems."*

**10.22** In February 2005, DOH presented the findings from the North South Group's report to the Labour Relations Committee of Executive Council. The Committee directed that a working group be established to review the recommendations and establish a plan for implementation in collaboration with key stakeholders where appropriate. In May 2005, the Department created a multi-stakeholder steering committee to provide advice to the Department on alternative funding plans. Membership included:

- DOH;
- Treasury and Policy Board;
- Doctors Nova Scotia;
- Dalhousie University Faculty of Medicine; and
- the District Health Authorities and the IWK Health Centre.

**10.23** The Department identified goals to be achieved through a new framework. The following goals were included in the March 30, 2006 framework presentation to the Labour Relations Committee of Executive Council:

- *"Facilitates Innovative Care Delivery and medical education and research*
- *Provides equitable, predictable/stable funding*
- *Facilitates physician recruitment, retention, and allocation*
- *Encourages collaboration*
- *Facilitates provincial/regional program delivery*
- *Helps achieve stakeholder goals*
- *Facilitates Accountability and transparency*
- *Ensure value-for-money"*

**10.24** The committee developed a framework model which, according to the Department of Health, addressed 41 of the 43 recommendations. Two recommendations were related to information technology and will require more time to introduce than the others. The framework was developed to serve as the model to be applied to all Alternative Payment Plan and Academic Funding Plan contracts to be negotiated in the future.

**10.25** In early April 2006, the Department of Health made a presentation to the Labour Relations Committee of Executive Council on its proposed new framework and the Committee approved a number of related items. The Committee:

- accepted the general direction of the new framework, recognizing that it will continue to be developed;.
- approved the negotiating mandate for the renewal of an alternative funding

plan for the Department of Medicine at the Capital District Health Authority;
- instructed DOH to develop the master contract for the AFP/APP framework as part of the negotiations respecting the Department of Medicine; and
- instructed DOH to report back to Executive Council prior to executing the contract with details on expected outcomes and measurements.

**10.26** The key features of the new framework proposed by DOH are set out in Exhibit 10.3. The proposed framework, in contrast to previous arrangements, includes shared risk between the physician and the Department and more emphasis on volume of activities than previous agreements. The compensation base is blended and includes fee-for-service for clinical work and a fixed component for non-clinical activities. Each AFP/APP is to have an operations committee with a defined governance role involving funding and accountability. At the time of writing this Report (May 2006), the Province had not yet signed any agreements under the new framework.

**10.27** The new AFP/APP framework includes the following two principles related to control of costs:

> *"Overall Compensation Equity Principle – Cost of AFP/APP should not exceed average NS FFS [fee-for-service] physician income for similarly qualified physicians.*
>
> *Recruitment and Retention Competitiveness Principle – Costs beyond average NS FFS physician income may need to be accommodated in AFP's in order to ensure the ability to recruit and retain given the national marketplace for academic physicians."*

## Existing Contracts – Audit of Compliance

**10.28** We examined a sample of existing alternative funding agreements to determine whether there was compliance with the agreements and whether the following criteria had been met:

- Alternative funding agreements should outline the specific services, activities and deliverables the group will provide.
- The specific human resources required to provide the negotiated services and activities should also be outlined in the agreement.
- To ensure the activities and services are provided as negotiated, accountability mechanisms should be in place.

**10.29** Our sample consisted of 11 of the 30 existing agreements. Most of the agreements in our sample were negotiated in 2004 and expire on March 31, 2007. Our detailed findings are included in the following paragraphs. In summary, we reached the following conclusions.

- The documentation included in the negotiation files needs to be improved.
- The deliverables in certain contracts have not been well defined.

- There is a general lack of accountability within alternative funding agreements.

**10.30** We also determined that there was no record of Executive Council approval of certain agreements as required under Section 59 of the Provincial Finance Act.

**10.31** Roles and responsibilities - All agreements we reviewed had clearly outlined the specific human resources and professional qualifications required to provide the negotiated activities and services. The roles and responsibilities of all parties (DOH, District Health Authority, University, etc.) were clearly defined. Specific sections of each agreement were devoted to the various responsibilities of each party such as financing, governance or services.

**10.32** Contract approvals - Section 59 of the Provincial Finance Act requires that all new and renewed alternative funding contracts receive Executive Council approval. The Department was only able to provide such approvals for three of the eleven contracts in our sample. There is no record of approval of the remaining contracts. The Department of Health should ensure that all contracts receive Executive Council approval and documentation of the approvals should be maintained to preserve a trail for management and auditors.

**Recommendation 10.2**

**We recommend that all alternative funding agreements be approved as required by Section 59 of the Provincial Finance Act and that the Department of Health retain documentation relating to such approvals.**

**10.33** Payments - We tested a sample of 11 AFP/APP contracts to determine whether payments complied with the agreements. Our sample consisted of 8 group contracts and 3 individual contracts, with payments totaling approximately $3.5 million. Our testing found no errors.

**10.34** For all agreements we reviewed, there was evidence in the files of a comparison to fee-for-service (where applicable) or fees paid in other jurisdictions. However, for a majority of the agreements we examined, the documentation of this financial analysis and its role in the final agreement required improvement. The financial analysis was not clear and we required subsequent explanations by several staff members to explain procedures performed and linkages to final agreements.

**10.35** We noted that the file documentation supporting more recent contracts was improved through the inclusion of an "AFP Negotiation Summary" document prepared for each negotiation. The AFP negotiation summary helps to identify procedures employed, but does little to support actual documentation of such analysis. This summary sheet could be improved by adding direct linkages to the background work completed (i.e., an audit trail).

**10.36** We noted one occasion where funds started to flow to a physician group without the unanimous opting in of all physicians involved. The explanation we received was that, in some cases, signed members' declarations were not received on a timely basis by the Department of Health. In another situation, not all physicians involved opted into the plan and they were listed as exceptions. This does not concur with the AFP/APP objectives of including all physicians involved and the Department has indicated that it will revisit this on renewal of the specific contract.

**10.37** Deliverables – Deliverables are outcomes or results to be achieved through the agreement. The role of deliverables is to provide a direction and expectation for the physicians and the Department. Best practices for establishment of deliverables include the following:

- Deliverables should be explicit, easily understood and agreed upon.
- To maintain an appropriate balance between quality and quantity of service, mutually acceptable deliverable targets should be developed and included in formal contracts.
- Deliverables should create a reporting relationship in which the physician is accountable not only for the quantity of services, but also the quality.

**10.38** We reviewed eleven agreements which had all been completed prior to the new framework. We found that four contained no deliverables at all, while another contained "baseline" deliverables which consisted of three short sentences. The following is quoted from the Department of Medicine – Critical Care contract.

- *"Provision of continuous on-site ICU coverage at both the Halifax Infirmary and Victoria General sites of the QEII.*
- *Development of a critical care training program at Dalhousie University. The Critical Care Program should be expected to have an approved program in two years. The program would need to be approved by the Royal College.*
- *Other academic responsibilities as defined by Dalhousie University."*

**10.39** The five agreements with few deliverables comprised approximately $54 million (60% of our sample). The agreements included a section for deliverables. However, the schedules/appendices where deliverables were originally planned to be included are basically blank pages. In those cases where deliverables had been developed, we observed deficiencies.

**10.40** Reporting – Accountability mechanisms should also be included in all agreements. Whereas deliverables outline specific expectations for each party, accountability mechanisms are the tools used to measure whether deliverables have been met. It is also important for the Department of Health to have a monitoring mechanism in place to ensure that all required reporting is received.

**10.41** For example, an agreement relating to Fisherman's Memorial Hospital emergency Department defines a deliverable to be the provision of 24-hour Emergency coverage. The related accountability mechanism is a quarterly report to the Department of Health outlining the actual coverage for that period.

**10.42** We examined 11 contracts and made the following observations:

- Seven contracts did not have accountability mechanisms in place for performance measurement. In those cases, the Department of Health did not have sufficient information to determine whether services were provided as negotiated.
- Four contracts included accountability mechanisms. However, they had no provisions or incentives to promote the achievement of deliverables. For example, there were no penalties for failure to reach deliverables or neglecting reporting/accountability requirements.
- Only one of the eleven contracts reviewed included a requirement for data/reports to satisfy all deliverables outlined in the agreements.

**10.43** There is a position at the Department of Health with responsibility for monitoring receipt of deliverables under the agreements. However, at the time of our audit, there was little activity in this area because the deliverables were not specified in the existing contracts.

**Recommendation 10.3**

**We recommend that the Department of Health proceed with its plans to implement a new framework for alternative funding arrangements. The agreements should include specific deliverables and accountability provisions for measuring whether deliverables have been achieved.**

## Individual Beneficiary Registration System

**10.44** Background - The Department of Heath is responsible for establishing the policies covering entitlement to MSI benefits. The beneficiary registration process controls access to medical services in the Province through issue of an MSI card which entitles the holder to receive insured services. If this process was not functioning properly, the Province would risk providing access to health services to persons who are not entitled to receive them. Medavie is responsible for administering the registration process for individuals entitled to health services according to DOH policies.

**10.45** To be eligible for insured health services under the Nova Scotia Health Plan, an individual must be:

- a Canadian citizen or be legally entitled to remain in Canada;
- a permanent resident in Nova Scotia; and
- ordinarily present in Nova Scotia for at least six months in a 12-month period.

**10.46** Results of audit - We reviewed the policies and internal controls related to completeness and accuracy of the beneficiary registration database. We performed audit tests on a sample of registrations and concluded that there was a weakness with respect to expired health card numbers.

**10.47** We selected 60 new registrations during 2004-05 as sample items from the various classes of beneficiaries in the registration database. Our testing results revealed compliance with the DOH policies and with the internal controls surrounding the registration process leading up to entry in the database. We also used data extraction software to perform analysis of the electronic database including a search for duplicate health card numbers issued to the same individual. We found no errors.

**10.48** Health cards are valid for a four-year term and are to be renewed. The beneficiary is sent a renewal form which is to be completed and returned. As reported in Chapter 10 of the 2003 Report of the Auditor General, MSI continues to pay claims on expired heath cards as directed by the Department of Health. DOH maintains that the majority of the services would have been provided to otherwise eligible residents of the Province who simply neglected to renew their health cards. Using data extraction software, we estimate that payments made on behalf of expired card holders in 2004-05 amounted to approximately $0.5 million or .2% of the fee-for-service billings. The payment of claims for expired health cards increases the risk of payment for ineligible individuals and reduces control over the beneficiary registration process. We repeat our 2003 recommendation in this area.

**Recommendation 10.4 (repeated from 2003)**

**We recommend that the Department of Health conduct a detailed analysis of the risks and benefits associated with the payment of claims for expired health cards and that appropriate controls and procedures be implemented.**

**10.49** We examined the relationship between the number of registered beneficiaries (957,000) and the population of the Province (936,000). Because the number of beneficiaries is larger than the population by 21,000 or approximately 2%, there is a risk that some of the registered beneficiaries may be ineligible. There are factors which cause the number of beneficiaries to vary from the population such as military and RCMP personnel resident in Nova Scotia not eligible for MSI, registered beneficiaries no longer resident in Nova Scotia, and temporary residents of Nova Scotia who are not eligible for MSI. To increase control over the

beneficiary registration process and the completeness and accuracy of the database, the gap between the number of registered beneficiaries and the population should be monitored and the variance should be explained.

**Recommendation 10.5**

**We recommend that the Department of Health and Medavie monitor the gap between the number of registered beneficiaries and the Province's population and provide an explanation of variances.**

## Provider Registration System

**10.50** Background - The College of Physicians and Surgeons of Nova Scotia is the professional body responsible for regulating the Province's medical profession in accordance with the Nova Scotia Medical Act and regulations. The College's responsibilities include physician registration and licensing. There were approximately 2,166 physicians in 2004-05 receiving payments under MSI.

**10.51** Medavie is responsible for maintaining the registration process for providers of insured medical services. Licensed physicians apply to Medavie for registration and are to be provided with specific and unique billing numbers. If this process was not functioning properly, the Province would risk making payments to unlicensed or unregistered providers, or claims for payment could be filed under multiple billing numbers. Medavie maintains a computerized database of registered providers and relevant policies are documented in a manual. DOH is responsible for establishing the policies to be followed in maintaining the provider registration system.

**10.52** Results of audit - We found that DOH policies surrounding the provider registration process were not current. These policies were approved in late 1999 but are not followed. For example, the policy refers to a billing number committee, and specifies its membership, a meeting schedule and the committee reporting schedule. However, this committee no longer exists. Despite the lack of compliance with specific policies, Medavie has established operating procedures which satisfy basic internal control requirements for the issue of billing numbers to licensed physicians

**Recommendation 10.6**

**We recommend that the Department of Health update its provider registration policies and communicate them to Medavie.**

**10.53** We selected a sample of 31 new physician registrations during 2004-05 from the provider registration database and tested the documentation of controls prior to entry in the database. We found that the controls described by Medavie were in

effect. We also used data extraction software to analyze the electronic database including a search for duplicate billing numbers issued to the same physician. We found no errors.

### Monitoring Activity

**10.54** Background - DOH is responsible for monitoring physician payments and has contracted Medavie to perform this function. Medavie has a Monitoring and Statistics Division which performs audits of MSI transactions. Various types of audit tools are used to verify claims submitted by physicians such as service verification letters sent to patients, physician profiles, on-site billing audits, and internal billing audits. The Monitoring and Statistics Division prepares annual plans based upon risk assessments, and reports annually to the Department of Health.

**10.55** Results of audit - We reviewed the 2003-04 and 2004-05 audit plans and audit activity reports of the Monitoring and Statistics Division of Medavie. We concluded that Medavie employs appropriate audit planning and risk assessment practices.

## CONCLUDING REMARKS

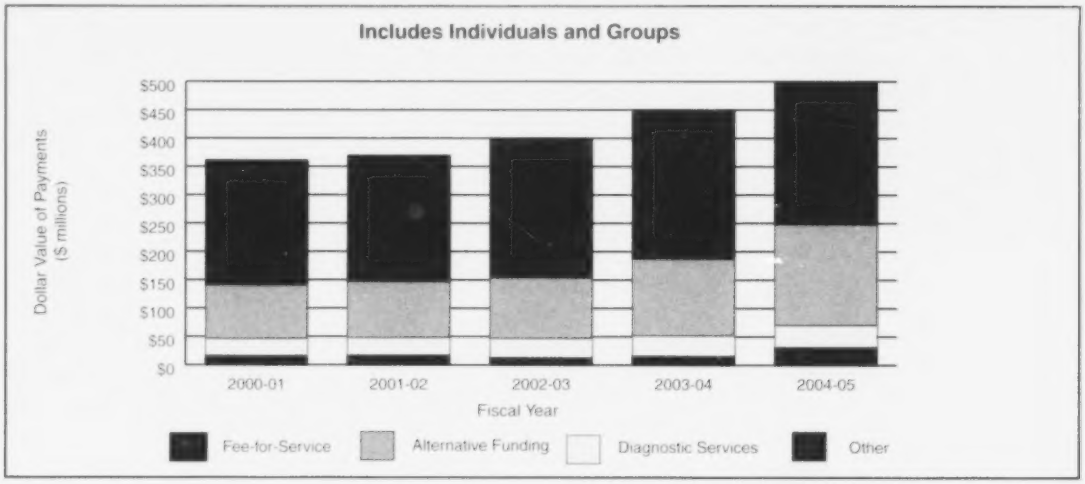
**10.56** Development of appropriate compensation strategies for physicians is a complex and challenging area. Specialists and general practitioners are involved in a diverse range of activities, both clinical and non-clinical, in many different practice settings. Compensation has a potential impact on what physicians do, how they do it and where they do it. Attractive compensation packages may help to alleviate physician shortages while poor compensation may lead to shortages. There are many stakeholders affected by the physician compensation process and changes cannot be imposed unilaterally; extensive negotiations must precede any changes to agreements.

**10.57** The Department of Health and Doctors Nova Scotia have been using alternative funding arrangements as a mechanism to achieve their goals for physician compensation. Our 2000 audit of this area and a 2005 consulting report issued by North South Group Inc. identified concerns with the way in which these arrangements had been implemented and the resulting impact on the Department of Health's ability to appropriately manage this area.

**10.58** Nova Scotia's approach to physician compensation continues to evolve. The Department of Health and Doctors Nova Scotia have made significant efforts to improve alternative funding arrangements and there is recent evidence of progress. A new framework has been approved in principle by the Labour Relations Committee of Executive Council but has not yet been reflected in any signed alternative funding agreements. Progress has been slow and is still in a developmental stage. We encourage the Department to proceed with

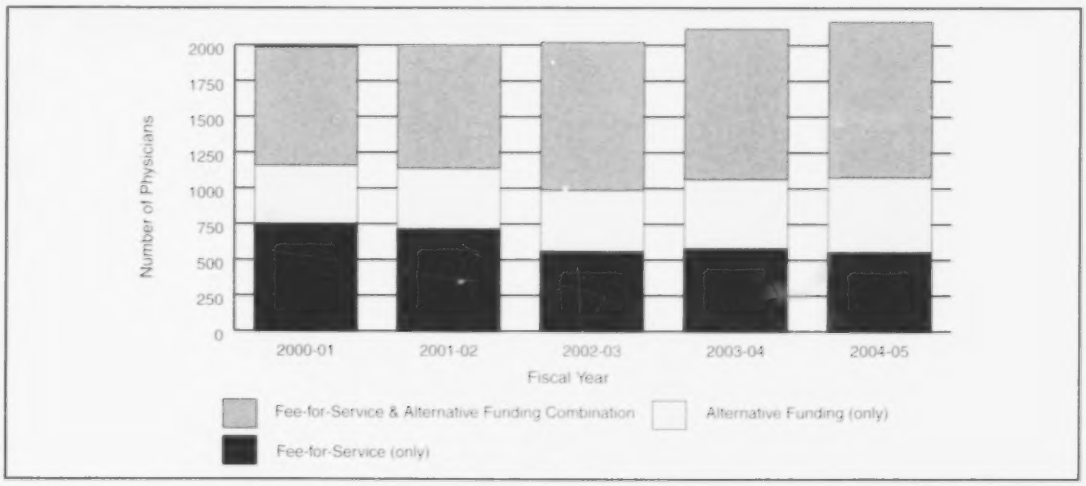
implementation of the new framework in a manner which achieves appropriate accountability for the expenditure and due regard for economy and efficiency.

Exhibit 10.1 **Payments to Physicians by Type of Payment**




*Source: Medavie reports to DOH*

Exhibit 10.2 **Physicians by Type of Remuneration**




*Source: Medavie reports to DOH*

## Academic Funding Plans/Alternative Payment Plans Framework
## Summary of Key Features

Exhibit 10.3

*Note: As presented by DOH to Labour Relations Committee of Executive Council in April 2006 and accepted as the general direction for future alternative funding negotiations.*

- Represents a "blended" compensation model
  (i.e. consists of 'fixed' and FFS funding)
- Differentiates between clinical and non-clinical funding to allow for clear delineation of respective deliverables
- Contains direct accountability measures for:
  - 'fixed' funding (through explicit non-clinical deliverables such as teaching, research output, leadership, on-call, etc.); and,
  - FFS funding all within identified deliverables
- Performance based contract which directly addresses productivity/output decline concerns associated with existing AFP/APP's ("no work, no pay")
- Clarifies rules for how physicians are compensated
  (i.e. depending on physician status and service setting)
- Compensation components permit easy inter- and intra-AFP/APP comparisons
- Compensation package to not exceed average full time provincial fee-for-service experience, unless there is a demonstrated need to address national competitiveness issues.
- Overall Framework ensures equity within and among AFP/APP's (equal compensation for work of equal value)
- Clear delineation of requirements for funding will provide greater clarity and comparability between various geographic regions. This will reduce the pressures for adjustments based on anecdote.
- Ability to target additional services once contracted services are met.
- Contains inherent flexibility that will fully accommodate changing needs as these are identified
- Aligned with needs of all stakeholders
- Effective full compliance with 41 of 43 DOM Audit Recommendation
  (2 exceptions relate to IT systems)
- Proposed model and funding levels will result in improved access and therefore better patient outcomes.

## DEPARTMENT OF HEALTH'S RESPONSE

We have reviewed the Report and Recommendations on the Payment to Physicians Audit, and would like to provide the following management responses to each of the recommendations.

***Recommendation #1***

*We recommend that the Department of Health revise its policies for physician alternative funding arrangement to reflect current practice.*

Department of Health policies are in the process of being revised to ensure their alignment with the new AFP framework. Part of this initiative includes the establishment of a Provincial advisory committee by September 2006, to oversee and guide the development of related policies and procedures in a consistent manner throughout the province. The time-frame for the completion of this aspect of the Committee's mandate will be March 31, 2007.

***Recommendation #2***

*We recommend that all alternative funding agreements be approved as required by Section 59 of the Provincial Finance Act and that the Department of Health retain documentation relating to such approvals.*

It is intended that the provisions of Section 59 of the Provincial Finance Act be adhered to.

***Recommendation #3***

*We recommend that the Department of Health proceed with its plans to implement a new framework for alternative funding arrangements. The agreements should include specific deliverables and accountability provisions for measuring whether deliverables have been achieved.*

A template master Alternative Funding Agreement has been completed, and at the time of this review, the framework has been accepted in principle by Cabinet.

***Recommendation #4***

*We recommend that the Department of Health conduct a detailed analysis of the risks and benefits associated with the payment of claims for expired health cards and that appropriate controls and procedures be implemented.*

The Department of Health will conduct an in-depth analysis associated with the payment of claims for expired health cards. The Department will review the current status of health legislation changes to determine if the Health Services and Insurance Act can be amended in order to re-implement the expiry date requirement. The Department recognizes that the re-implementation of the expiry date check is important in ensuring the integrity of the health card registration database.

**Recommendation #5**

*We recommend that the Department of Health and Medavie monitor the gap between the number of registered beneficiaries and the Province's population and provide an explanation of variances.*

The Department of Health will continue to monitor the gap between the number of health cards issued and the population of the province. The Department of Health will review the current variance of approximately 21,000 health cards to determine if these can be explained. As stated in the Auditor General's report when residents move out of province, they do not necessarily contact MSI to notify them, as they believe they have a valid card. Both the Department of Health and Medavie Blue Cross will have to improve the information available to the public to ensure residents are aware of health card requirements. The total of 957,000 could include deceased individuals, residents who have moved out of province, adoptions, NATO personnel etc. The Department of Health will attempt to validate these numbers.

**Recommendation #6**

*We recommend that the Department of Health update its provider registration policies and communicate them to Medavie.*

The Department of Health concurs, and will begin to address this issue in the upcoming year.

# 11 SUSTAINABLE TIMBER SUPPLY

## BACKGROUND

**11.1** The Department of Natural Resources is responsible for helping to ensure the sustainability of the Province's forests. The Department's website defines forest sustainability as "*the maintenance and enhancement of the long-term health of a forest ecosystem for the benefit of all living things while providing environmental, economic, social and cultural opportunities for present and future generations.*"

**11.2** One of the activities that relates to sustainability is the timber forestry. This refers to the harvesting and regenerating of trees for purposes such as the supply of construction materials and pulpwood. An economic impact study of the Nova Scotia forest industry performed by the Atlantic Provinces Economic Council indicates that in 2004 there were about 11,000 direct and 4,800 indirect jobs that depend on forestry. Many of these jobs are in rural areas of the Province. The value of international exports of paper and wood products totaled in excess of $1.0 billion in 2004.

**11.3** The land mass of Nova Scotia is approximately 5.3 million hectares and the total forested area is about 4.2 million hectares. Approximately 70% of Nova Scotia forest land is privately owned and about 30% is owned by the Federal and Provincial governments. Approximately 1.6 million hectares (38%) of Nova Scotia forest land is considered unavailable to support forest industries because of designation for parks, protected areas or wildlife habitats; other biodiversity considerations; or inaccessibility or nonproductivity.

**11.4** The land remaining to support forest industries is about 2.6 million hectares. About 75% of operable land is privately owned and 25% is crown land. In 2004, the total Provincial harvest was 6.9 million cubic metres of wood. The private harvest totaled 6.3 million cubic metres (91%) and the timber harvested from Provincial crown land was 0.6 million cubic metres (9%). Two large industrial licensees were responsible for approximately 80% of the Provincial crown land harvest; of which 64% was processed by the licensees and 36% was redirected to sawmills for processing into construction materials. The sawmills processed the wood and returned byproducts to the licensees for use in pulp production. Licensees pay a fee called 'stumpage' to the Province for wood they harvest from Provincial crown lands.

**11.5** The majority of wood harvested from private and crown lands is softwood (see Exhibit 11.1, page 176). Departmental forecasts indicate that softwood supply on crown land is generally sustainable into the future. However, it is uncertain whether softwood supply on private lands is sustainable. The Department has no concerns about the overall sustainability of the hardwood supply (see Exhibit 11.2, page 176). However, management indicated the harvest of quality hardwood

material (i.e., suitable for use in construction) is estimated to be approaching long-term sustainability limits.

**11.6** In 1982, the Provincial government established a Royal Commission on Forestry, which reported recommendations in 1984. In 1986, the government released *Forestry: A New Policy For Nova Scotia* and established forestry reforms and goals by way of legislation. The concept of sustainable forestry was introduced as a principle in the Forests Act. One change to the Act added the objective of doubling forest production by 2025.

**11.7** In January 1997, the Department released a position paper titled *Toward Sustainable Forestry* which noted that softwood harvests had exceeded sustainable supply levels on private lands. In response, the Forests Act was amended to provide authority to implement a new forest strategy. New regulations were drafted to require registration of buyers of forest products and provision of statistical returns to the Department.

**11.8** In 1999, the Department released *Wood Supply Forecast for Nova Scotia 1996 - 2070*, confirming that softwood timber harvest on private woodlots was not sustainable at current rates of regeneration. In 2000, legislative changes were proclaimed and registration and statistical returns regulations came into full effect. In December 2001, regulations were again revised. Buyers acquiring more than 5,000 cubic metres of wood per year were made responsible for performing or funding silviculture on harvested lands. Registered buyers who choose not to do silviculture work must make contributions to the government's Sustainable Forestry Fund. The fund is used by the Department to pay for silviculture on private lands.

**11.9** In 2005, the Department received stumpage for crown timber and other forest revenues of $5.5 million (2004 - $4.7 million). The Department spent $7.3 million (2004 - $6.8 million) on forest silviculture for private and crown lands. (Exhibit 11.3, page 177.)

## RESULTS IN BRIEF

**11.10** The following are our principal observations from this review.

- The level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance). This is because of the type of work we performed. Our evidence was based on management representations and review of applicable documentation. We did not test controls to determine if they operated as described to us.

- There has been no regular, comprehensive public reporting relating to sustainable forestry in Nova Scotia. The Department should implement its goal of issuing a state of the forest report on a periodic basis.

- In 1986, the Department set a goal of "doubling of forest production by the year 2025." Information presented to us indicates that the goal has been achieved, in approximately half the planned time. We are also aware that the Department has concerns about the sustainability of softwood harvests on private lands. The Department has not publicly reported progress in achieving this goal, nor provided an assessment of whether the increase in production is one cause of its concerns about sustainability.

- The Department follows a regular annual and long-range planning process for timber supply sustainability.

- The Department has appropriate processes and procedures to monitor and control silviculture on private and crown land. However, we noted the Department was not receiving audit reports from one licensee of crown lands as had been previously agreed upon.

- The Department should review the investment practices of the special funds it administers and publicly report financial information related to the funds on a regular basis.

## REVIEW SCOPE

**11.11** In December 2005 we completed a review of the Department of Natural Resources' programs and processes related to its role in helping to ensure a sustainable timber supply. The review was conducted in accordance with Section 8 of the Auditor General Act and assurance standards established by the Canadian Institute of Chartered Accountants, and accordingly included all procedures we considered necessary in the circumstances.

**11.12** The objective of this assignment was to review and assess whether the Department of Natural Resources is appropriately accountable for the sustainability of the timber supply in Nova Scotia, and whether it has adequate planning, monitoring and enforcement systems to regulate this area.

**11.13** Our work included interviews with divisional management and staff, as well as review of legislation, agreements, manuals, public reports and other documentation. We did not verify that all systems and controls described to us were operating effectively. During the review, numerous reports, data and statistics were obtained from the Department and the National Forestry Database of the Canadian Council of Forest Ministers. We did not verify the completeness or accuracy of this information. Accordingly, the level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance).

**11.14** We developed criteria to assist in the planning and performance of the review. The criteria were discussed with senior management of the Department and accepted as appropriate.

## PRINCIPAL FINDINGS

### Sustainable Timber Supply Planning

**11.15** The Department has a formal planning process relating to forest sustainability. Annual operational plans are prepared by the Department, by licensees which harvest crown land, and by buyers of forest products. The plans prepared by licensees are reviewed and approved by the Department. The Department also prepares and publishes periodic forest inventories. It prepared a long range study in 1999 titled *Wood Supply Forecast for Nova Scotia 1996 - 2070*. A new forecast will be released in 2006. In 2002, the largest licensee of crown land prepared a long-term forest management plan with a 200-year horizon and submitted it to the Department.

### Sustainable Timber Supply Monitoring

**11.16** Forecasts and studies have shown that harvest of crown forest land is sustainable with current levels of harvest and silviculture effort. The Department reviews and approves all plans for forest harvest and silviculture on crown land, and inspects selected areas where work has been carried out. The Department does not formally document all sites inspected, but does follow up any sites where the harvest or silviculture work does not meet established guidelines, standards or regulations.

**11.17** The Royal Commission on Forestry in the 1980's and several Department studies in the 1980's and 1990's have indicated that softwood harvest on private land is not sustainable without a concerted silviculture program. The Provincial government provided programs and incentives through a series of forestry development and other agreements between 1975 and 1995, and through Provincial regulations after 1998.

**11.18** In 1999, the Department published *Wood Supply Forecast for Nova Scotia 1996 - 2070*. The forecast identified that the softwood harvest on small private land was still not sustainable with the amount of silviculture carried out. The following year, government proclaimed additional regulations respecting forest sustainability on private lands. Registered buyers of forest products were required to report the volume of wood cut each year from private lands, and outline in their wood acquisition plans strategies for meeting their obligations to provide for the regeneration of forests harvested. The Department annually selects up to 1,000 sites on private lands which received silviculture treatment and evaluates the work against the requirements of regulations and guidelines.

### Reporting on Sustainable Timber Supply

**11.19** Section 2 of the Forests Act notes that the Act is directed toward several purposes, including:

> *"(a) developing a healthier, more productive forest capable of yielding increased volumes of high quality products;*

(b) encouraging the development and management of private forest land as the primary source of forest products for industry in the Province;

(c) supporting private landowners to make the most productive use of their forest land;

(d) providing effective management of all crown lands;

(e) maintaining or enhancing wildlife and wildlife habitats, water quality, recreational opportunities and associated resources of the forest;

(f) enhancing the viability of forest-based manufacturing and processing industries;

(g) doubling of forest production by the year 2025;

(h) creating more jobs immediately and in the longer term through improved productivity."

**11.20** The Act does not have a requirement for reporting progress towards these goals. However, in January 1997 the Department published a position paper titled *Toward Sustainable Forestry* which recommended that a state of the forest report be prepared to provide "*an assessment of the ability of the province's forests to meet various demands, including sustainability of harvests and related data*". It also recommended that the report be published during the 1997-98 fiscal year and updated every three to five years thereafter.

**11.21** No state of the forest report has been produced in the nine years after the release of the position paper. There has been no other form of regular comprehensive reporting relating to sustainable forestry in Nova Scotia. The Department's 2003-04 business plan indicated that the first state of the forests report would be prepared and released during the year. The Department's 2003-04 accountability report noted that report has been deferred to 2005-06.

**11.22** In February 2004, the Department presented an overview of the Nova Scotia Forest Strategy to the Legislature's Standing Committee on Resources. The presenters indicated that an outline had been developed for a state of the forest report that would be produced on a three-year cycle, and that the report would include many of the results achieved under the Department's forest strategy. We encourage the Department to fulfill its commitment to report on the state of the forestry as soon as practical, and we advise that it include reporting against the purposes stated in the Forests Act in order to provide accountability for progress against major legislative goals.

**Recommendation 11.1**

**We recommend the Department prepare and issue a state of the forests report as soon as practical. The report should address progress relating to the purposes noted in the Forests Act.**

11.23 The Department maintains a comprehensive library and website containing information about the Department and its operations. There is much information available, including forest inventory reports and a registry of forest product buyers. Most of the reports contain information for one fiscal year only. In 1999, the Department produced *Wood Supply Forecast for Nova Scotia, 1996-2070*. The forecast included a number of graphs which illustrated trend information over several years and decades, and also included comparative information in various graphs (e.g., wood harvest versus supply). However, this information is not readily available to the public.

**Recommendation 11.2**

We recommend the Department include long-term comparative and trend information in its proposed state of the forest report and/or on its website.

11.24 The Department prepared a submission to the Royal Commission on Forestry in 1983. The submission's summary noted the forest industry required 3.3 million cubic metres of softwood annually and, with an intensive forest silviculture program, the softwood annual harvest could be increased to 5.5 million cubic metres by 2020. Following the report of the Royal Commission, the Provincial government released a policy statement and implemented legislative reforms to establish the goal of doubling forest production by 2025, representing a span of approximately 40 years. At that time, the planned annual harvest was 3.1 million cubic metres. In 2004, approximately 20 years later, the annual harvest was 6.9 million cubic metres. We are also aware that the Department has concerns about the sustainability of softwood harvests on private lands. This significant goal and the Department's progress in achieving it have not been publicly reported and assessed in light of its concerns over sustainability.

**Recommendation 11.3**

We recommend the Department regularly report on progress toward significant sustainable forestry goals and objectives.

11.25 Stumpage is a fee charged by the Province to licensees which harvest timber from crown land. Crown stumpage rates are set with the intent of ensuring cost parity with wood harvested from private land. In the 1990's, crown stumpage rates were based on a 1987 study titled *A Review of Stumpage, Forest Management and Market Access*. The stumpage fee was adjusted annually based on forest products industrial indices. In December 2000, another major study was completed, resulting in a report titled *Review and Recommendations on the Valuation, Allocation and Sale of Crown Timber Resources In Nova Scotia*. In January 2001, and again in July of the same year, the Department issued news releases related to the report. In the July new release, the Department indicated that it had accepted most of the report's recommendations and that "*Most of the recommendations adopted from the report will be implemented over the next three to five years.*"

**11.26** We noted during our review that the Department accepted most of the recommendations related to stumpage rates and was prepared to consider recommendations related to other matters raised in the study. Some recommendations from the study have been addressed. However, the Department has not publicly reported recommendations accepted and rejected, nor its actions in response to each recommendation that has been accepted.

**Recommendation 11.4**

**We recommend the Department prepare and publicly report formal responses to significant studies performed on its behalf, indicating whether recommendations are accepted or rejected. Further, progress in implementing accepted recommendations should be reported.**

**11.27** The Department has developed outcomes and performance measures which are described in its annual business plans and included in its annual accountability reports. The plans and reports also describe the annual strategic goals, core business areas, and priorities of the Department.

**11.28** In 2002, the Department defined a series of integrated resource management goals and objectives for Nova Scotia. The first goal is to *"Use Renewable Resources Within Long-term Sustainable Levels."* The first objective is *"Harvest of forest products not to exceed the long-term sustainable levels."* Progress towards the goal and objective is not reported in any Department publications.

**Recommendation 11.5**

**We recommend the Department regularly report progress towards each of its significant integrated resource management goals and objectives.**

**11.29** There are approximately 4.2 million hectares of total forest land in Nova Scotia, of which 1.2 million hectares is Provincial crown land. In 2004, the total Provincial harvest was 6.9 million cubic metres of wood. The private harvest totaled 6.3 million cubic metres (91%) and timber harvested from Provincial crown land totaled 0.6 million cubic metres (9%). That year, two large industrial licensees were responsible for approximately 80% of the Provincial crown land harvest. These two licensees are required to conduct silviculture on Provincial crown land harvested. The Department pays fees for this work and monitors the quality and appropriateness of the silviculture. The Department is responsible for silviculture on the remaining Provincial crown lands.

**11.30** We noted that the Department has measures for the amount of silviculture investment made and the percentage of required value of silviculture completed for private lands. However, there are no specific performance measures related to the sustainability of crown land. The Department has a measure of the percentage of

crown land with long range management frameworks in place, though there were no frameworks in place at March 31, 2005. The Department's public reporting does not discuss status or progress relating to forest sustainability. We understand that, at this time, sustainability of crown land is generally not a concern to the Department, but sustainability of small private softwood forest is still in question.

**Recommendation 11.6**

**We recommend the Department establish performance measures relating to sustainable forestry on both private and crown land, and report progress towards forest sustainability on a regular basis.**

## Other Observations

**11.31** Stora Enso Port Hawkesbury Limited - The Department grants Stora Enso Port Hawkesbury Limited use of certain crown land in accordance with the Stora Forest Industries Limited Agreement Act. If the company continues to meet the terms of the agreement, the company has everlasting use of the specified crown land. The Act was brought into force in1957, replaced in 1969, and there have since been various supplementary agreements.

**11.32** The Act makes Stora Enso Port Hawkesbury Limited responsible for silviculture on the crown land it manages, and the Province pays the company for this work using negotiated rates. One Departmental requirement is that the company contract for its external auditors to report annually on the accuracy of the company's silviculture claims, and provide this report to the Department. We understand that such a report has not been provided since 1998. However, we have been informed that the company has agreed to have the claim audits reestablished and reported to the Department.

**11.33** Stora Enso Port Hawkesbury Limited sends interim and final claims to the Department for silviculture completed. During our review we found two errors primarily related to Harmonized Sales Tax. The errors understated the company's 2004 silviculture claim, and thus the amount owing to it by the Province, by $253,336. We understand that these silviculture claims were revised several times by the licensee, and this may have led to the errors. However, we believe the Department needs to be more careful in the verification of silviculture claims.

**Recommendation 11.7**

**We recommend the Department check all silviculture claims for mathematical accuracy.**

**11.34** Special funds - The Department is responsible for 10 special funds which totaled approximately $6.2 million on March 31, 2005. The funds relate to several

operational areas within the Department, including forestry, mineral resources and wildlife. Two of the funds were established to support private and crown land silviculture, and totaled $2.5 million at March 31, 2005. Each of the special funds are controlled by the Department, but are invested by the Department of Finance.

**11.35** We reviewed the forms prepared by the Department to set up the special funds and noted that most indicate funds are to be invested for 30 day terms, or not to be invested at all. We reviewed the annual transactions in the funds and found that several had few or no disbursements. We reviewed the income earned in the funds and found the rates of return were between 0% and 2.3% per annum. We noted that two funds were deposited to bank accounts and earning low interest. We were informed that these two funds were invested subsequent to our enquiries.

**11.36** Investment rates of return are affected by the amount, quality and term of the investment. The Department's funds are earning a minimal rate of return because they are generally invested in 30 day bankers' deposit notes. We believe the Department should analyze the activity in the funds and project future expenditure requirements. Finance should be advised of the expected cash flow requirements so it can invest the funds appropriately.

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**Recommendation 11.8**

**We recommend that the Department analyze activity in its special funds, project future fund cash flows, and advise the Department of Finance to invest the funds accordingly.**

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**11.37** There is no detailed public reporting for the special funds administered by the Department. Summary information is published in the Provincial Public Accounts, but there is no reporting of the balance and activity of each fund. In June 2000, the Department released a background paper about its Sustainable Forestry Fund which stated

> *"However, neither the annual reports of the Department of Finance nor the Public Accounts Book reveal the itemized balance for each of the many small funds administered by Finance. They are reported as an aggregate for all funds. This is not considered sufficient. To improve the accountability for the Sustainable Forestry Fund, the Department of Natural Resources must publish its own annual report. This was clearly identified in the Public review and is now a requirement of the Department under the Regulations."*

**11.38** As of the date of our review, the Department had not significantly improved its reporting of special funds. To improve the accountability for the Sustainable Forestry Fund, the Crown Land Silviculture Fund and other special funds, the Department should publish a continuity statement or some other financial statement on the Department's website or in an annual report.

**Recommendation 11.9**

We recommend the Department annually report balances and financial activity in the special funds it administers.

**11.39** Payment of stumpage fees - The Department charges a stumpage fee based on the volume of timber harvested from crown land. The areas to be harvested are approved in advance by the Department and the harvester sends a quarterly return which notes the amount of timber harvested and the amount owed to the Province. The standard time-limit for making payments is 90 days after the end of the quarter in which harvesting occurs. We noted that the quarterly returns from one harvester were billed in October 2005 for timber harvested between October and December 2004 ($24,752) and between January and March 2005 ($73,482).

**Recommendation 11.10**

We recommend the Department monitor harvesters' stumpage remittances to ensure they are received on a timely basis.

## CONCLUDING REMARKS

**11.40** During our review, we observed no instances at the Department of inadequate planning, monitoring and enforcement systems to regulate the sustainability of the timber supply in Nova Scotia.

**11.41** We believe the Department could improve its reporting of progress towards a sustainable forestry.

Exhibit 11.1 **Provincial Softwood Supply and Harvest**
**Year ended December 31**

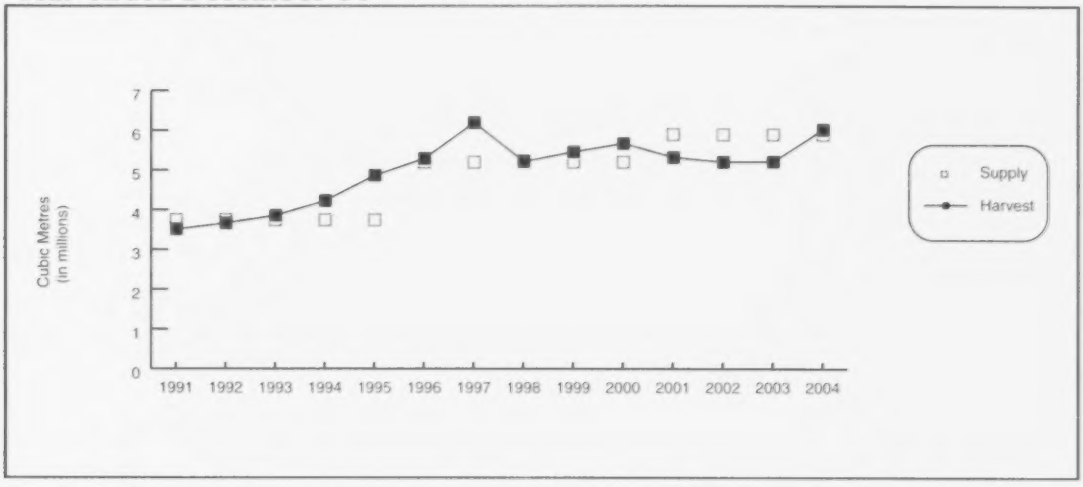
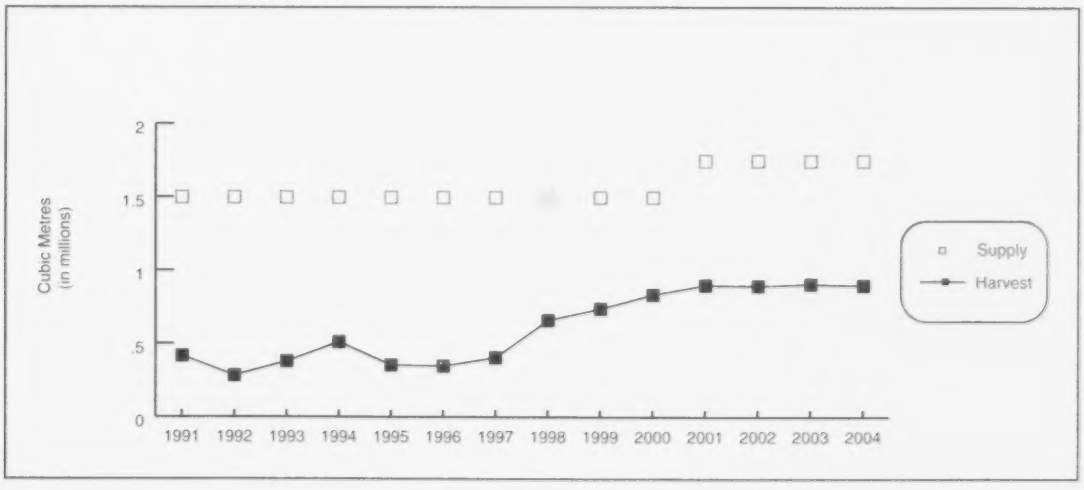


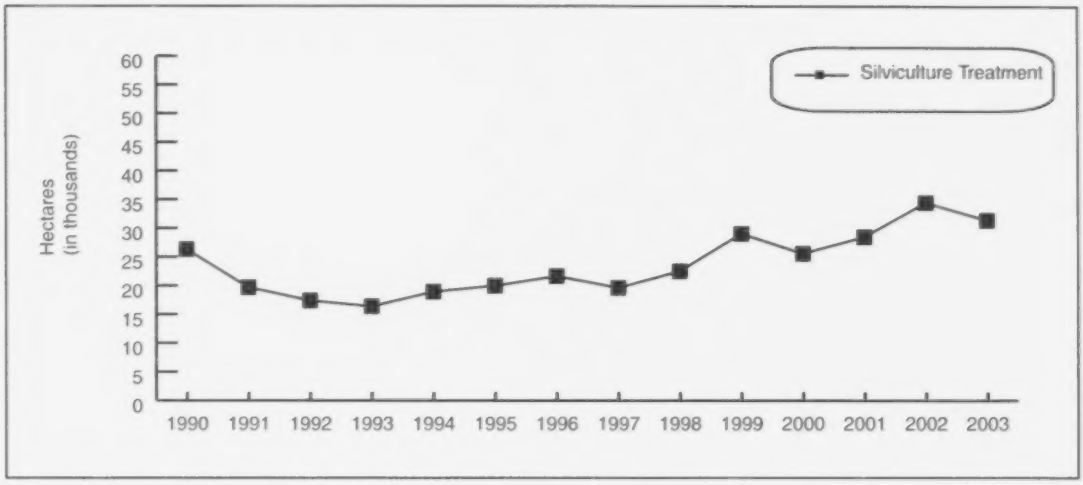

Exhibit 11.2 **Provincial Hardwood Supply and Harvest**
**Year ended December 31**




Source: Department of Natural Resources

## Provincial Hectares of Silviculture Treatment
## Year ended December 31

Exhibit 11.3




*Source: Canadian Council of Forest Ministers - National Forestry Database Program*

## DEPARTMENT OF NATURAL RESOURCES' RESPONSE

The Office of the Auditor General has provided the Department of Natural Resources its review of sustainable timber supply. The Department appreciates having received the results of the review and is pleased the review found adequate planning, monitoring and enforcement systems to regulate the sustainability of the timber supply in Nova Scotia. The Department agrees that more needs to be done in reporting the progress towards sustainable timber supply.

The Department has initiated the preparation of the recommended state of the forest report and will give full consideration to the inclusion of the items recommended to be reported on within the state of the forest report.

The Department will prepare an Action Plan with respect to all the recommendations made to ensure progress on each recommendation. In the Action Plan, the improvements required, timelines for action, resources required and the positions accountable will be identified. This is being undertaken to ensure improvements are implemented satisfactorily and on a timely basis.

The Department of Natural Resources appreciates the findings of the review and will use it and its recommendations to support the Department's ongoing work towards continuous improvement of its effort to ensure timber sustainability and related management functions. Action for improvement is already occurring in many areas.

# Appendix

# AUDITOR GENERAL ACT - SECTIONS 8, 9, 15, 17

## AUDITOR GENERAL ACT

### SECTION 8 Examination of account

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

### SECTION 9 Annual report on financial statements in public accounts

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

## Section 9A Annual report on work of Auditor General

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

### Section 9B Review and opinion of revenue estimates

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

### Section 15 Special audit and report

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Treasury and Policy Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

## SECTION 17 Examination by chartered accountant

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.